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To: Councillor Flynn, Convener; Councillor Yuill, Vice Convener; Councillor Councillor Crockett, the Lord Provost; Councillor Donnelly, the Depute Provost; and Councillors Allard, Bell, Cooke, Jackie Dunbar, Duncan, Graham, Lumsden, Avril MacKenzie, McLellan, Reynolds, Samarai, Sellar and Townson.

Town House,
ABERDEEN 20 September 2017

AUDIT, RISK AND SCRUTINY COMMITTEE

The Members of the **AUDIT, RISK AND SCRUTINY COMMITTEE** are requested to meet in **Committee Room 2 - Town House on TUESDAY, 26 SEPTEMBER 2017 at 2.00 pm.**

FRASER BELL
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

DETERMINATION OF URGENT BUSINESS

1.1 There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

2.1 Members are requested to determine that the exempt business be considered with the press and public excluded

DECLARATIONS OF INTEREST

3.1 Members are requested to intimate any declarations of interest (Pages 5 - 6)

REQUESTS FOR DEPUTATION

4.1 There are no requests for deputation at this time

MINUTE OF PREVIOUS MEETING

5.1 Minute of Previous Meeting of 27 June 2017 (Pages 7 - 22)

COMMITTEE BUSINESS AND TRACKER

6.1 Committee Business Statement (Pages 23 - 24)

6.2 Committee Tracker (Pages 25 - 32)

NOTICES OF MOTION

7.1 There are no reports under this heading

REFERRALS FROM COUNCIL, COMMITTEES AND SUB COMMITTEES

8.1 There are no reports under this heading

FINANCE, PERFORMANCE RISK AND SERVICE WIDE ISSUES

FINANCIAL REPORTING

9.1 Annual Report to Members and the Controller of Audit on the 2016/17 Accounts (Pages 33 - 98)

9.2 Audited Annual Accounts 2016/17 - CG/17/111 (Pages 99 - 290)

PERFORMANCE AND IMPROVEMENT

9.3 Internal Audit Progress Report - IA/17/014 (Pages 291 - 308)

9.4 Information Governance Report & the General Data Protection Regulation - CG/17/109 (Pages 309 - 328)

9.5 RIPSA - Office of the Surveillance Commissioner's Inspection Report - CG/17/112 (Pages 329 - 350)

RISK MANAGEMENT SYSTEM

- 9.6 Risk System Review - CG/17/103 (Pages 351 - 382)
- 9.7 Scottish Public Services Ombudsman and Inspector of Crematoria Complaint Decisions - CG/17/102 (Pages 383 - 388)
- 9.8 ALEO Assurance Hub - Terms of Reference - CG/17/108 (Pages 389 - 402)
- 9.9 Whistleblowing Policy - CG/17/110 (Pages 403 - 406)

CONTROL ENVIRONMENT AND ASSURANCE - INTERNAL

- 9.10 Building Maintenance - Year End Stock Checks - IA/AC/1802 (Pages 407 - 420)
- 9.11 Housing Benefit and Council Tax Reduction - IA/AC/1723 (Pages 421 - 430)
- 9.12 Disclosure Checks - IA/AC/1721 (Pages 431 - 444)
- 9.13 ALEO's - Management by Services - IA/AC/1722 (Pages 445 - 464)
- 9.14 Business Continuity Planning - IA/AC/1804 (Pages 465 - 478)
- 9.15 Attendance Management - IA/AC/1805 (Pages 479 - 492)
- 9.16 Corporate Landlord Responsibilities - IA/AC/1806 (Pages 493 - 504)
- 9.17 Health and Safety - Scottish Schools Education Research Centre (SSERC) IA/AC/1803 (Pages 505 - 518)

CONTROL ENVIRONMENT AND ASSURANCE - AUDIT FOLLOW UP

- 9.18 Internal Audit Follow Up on Recommendations - IA/17/015 (Pages 519 - 558)

INVESTIGATION

- 9.19 Wellington Brae Investigation CHI/17/241 (Pages 559 - 576)

CONFIDENTIAL BUSINESS

10.1 Wellington Brae - Appendix 2

The Appendix will be heard in private and treated as confidential in terms of Section 50(A)(3)(b) of the Local Government (Scotland) Act 1973.

The Appendix has been circulated under separate circulation to Members of the Committee.

EXEMPT BUSINESS

11.1 Garthdee Alpine Sports - IA/AC/1701 (Pages 577 - 594)

EHRIA's related to reports on this agenda can be viewed at
[Equality and Human Rights Impact Assessments](#)

To access the Service Updates for this Committee please use the following link:
<https://committees.aberdeency.gov.uk/ecCatDisplayClassic.aspx?sch=doc&cat=13450&path=0>

Website Address: www.aberdeency.gov.uk

Should you require any further information about this agenda, please contact Karen Finch, tel 01224 522723 or email kfinch@aberdeency.gov.uk

Agenda Item 3.1

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons

For example, I know the applicant / I am a member of the Board of X / I am employed by...
and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

I have considered whether I require to declare an interest in item (x) for the following reasons however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

OR

I declare an interest in item (x) for the following reasons however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

- (a) a devolved public body as defined in Schedule 3 to the Act;
- (b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
- (c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
- (d) a body being a company:-
 - i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
 - ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

OR

I declare an interest in item (x) for the following reasons.....and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval
- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority.... and I will therefore withdraw from the meeting room during any discussion and voting on that item.

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AUDIT, RISK AND SCRUTINY COMMITTEE

ABERDEEN, 27 June 2017. Minute of Meeting of the AUDIT, RISK AND SCRUTINY COMMITTEE. Present:- Councillor Flynn, Convener; Councillor Yuill, Vice-Convener; and Councillors Allard, Bell, Cooke, Donnelly, Jackie Dunbar, Duncan, Graham, Laing (as substitute for Councillor Crockett), Lumsden, Avril MacKenzie, McLellan, Samarai, Sellar and Townson.

The agenda and reports associated with this minute can be accessed via the following link:

<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=507&MId=5768&Ver=4>

DETERMINATION OF EXEMPT BUSINESS

1. The Convener proposed that item 11.1 of today's agenda (article 23 of this minute refers) be considered with the press and public excluded.

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting for item 11.1 so as to avoid disclosure of exempt information of the class described in paragraphs 6 and 9.

COMMITTEE BUSINESS STATEMENT

2. The Committee had before it the Committee Business Statement as prepared by the Clerk.

The Committee resolved:-

- (i) subject to the decisions taken later on the agenda, to delete items 1 (Communities, Housing and Infrastructure Risk Register); 2 (Solar Photovoltaic Agreement); 3 (Review of Risk Management Systems); and 4 (Bond Financial Strategy – Implications for the Council); and
- (ii) to note that item 5 (3rd Don Crossing – Audit relating to the Programme Management Office) would be presented to this Committee in quarter four after work had been completed in reviewing the Capital Programme Governance Arrangements.

COMMITTEE TRACKER

3. The Committee had before it the Committee Tracker which presented a list of reports to be discussed at future meetings of the Committee.

The Committee resolved:-

to note content of the Committee Tracker.

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MINUTE OF PREVIOUS MEETING OF 23 FEBRUARY 2017

4. The Committee had before it the minute of its previous meeting of 23 February 2017.

The Committee resolved:-

- (i) in relation to article 9 (Council Owned Land and Property – Asset Registers), to note that the registers were available online and that the link would be issued to the Committee; and
- (ii) to otherwise approve the minute as a correct record.

INTERIM AUDIT REPORT - REPORT BY THE EXTERNAL AUDITOR

5. The Committee had before it a report by KPMG, External Auditors which presented their Interim Audit in relation to the financial statements for the period 1 April 2016 to 31 March 2017.

The Committee resolved:-

to note the content of the report.

UNAUDITED ANNUAL ACCOUNTS - CG/17/066

6. The Committee had before it a report by the Head of Finance, which (1) provided an overview of the Council's 2016/17 unaudited Annual Accounts; (2) presented the Annual Governance Statement for approval; and (3) presented the unaudited Annual Accounts for the registered charities where the Council was the sole trustee.

The report recommended:

That the Committee –

- (a) approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2016/17;
- (b) note the Council's unaudited Annual Accounts 2016/17;
- (c) note the unaudited Annual Accounts 2016/17 of the Council's registered charities;
- (d) note that following this meeting the Council's and the registered charities unaudited Annual Accounts will be finalised, signed and submitted to Audit Scotland by 30 June 2017;
- (e) note that as now required by statute, the Audit, Risk & Scrutiny Committee on 26 September 2017 will receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Head of Finance, Chief Executive and Council Leader;
- (f) note that the Audit, Risk & Scrutiny Committee of 26 September 2017 will also receive the external auditor's "Annual Report Members and the Controller of

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Audit” for debate and consideration and that this report will set out the auditor’s finding and conclusions from all audit activity undertaken during the year, highlight the significant issues arising from the audit of the annual accounts and inform Elected Members of the proposed audit opinion in advance of the accounts being certified; and

- (g) note that the Audit, Risk & Scrutiny Committee on 26 September 2017 will also receive the audited Annual Accounts for the registered charities for consideration and approval prior to their signature along with the associated external auditor’s report.

Members asked questions in relation to the Marischal Square Development specifically around the current position with tenants for the space.

The Head of Finance thanked officers and auditors for the work undertaken in the production of the annual accounts and for those involved throughout the year.

The Committee resolved:-

- (i) to note the additional information provided in relation to the Marischal Square Development;
- (ii) to note the thanks given to all officers and Auditors involved with the annual accounts process; and
- (iii) to otherwise approve the recommendations contained in the report.

INTERNAL AUDIT PROGRESS REPORT - REPORT BY THE INTERNAL AUDITOR - IA/17/010

7. The Committee had before it a report by the Internal Auditor which provided an update on progress made against the approved 2016/17 and 2017/18 Internal Audit Plans.

The report recommended:

That the Committee –

- (a) approves a delay in the audit requested, relating to whether there are adequate controls in the Programme Management Office, to quarter four of 2017/18; and
- (b) review, discuss and comment on the issues raised within the report and attached appendices.

Councillor Townson sought clarification as to why only Councillors who were members of the Education and Children’s Services Committee received a Protecting Vulnerable Groups (PVG) check. Councillor Dunbar sought clarification in relation to Councillors who had not been PVG checked and what the implications would be for them whilst at events or Councillor surgeries that would put them into contact with children or vulnerable adults.

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The Committee resolved:-

- (i) in relation to a question from Councillor Townson relating to Garthdee Alpine Sports and whether the audit had been completed, to note that the audit was complete and would be presented to this Committee in September 2017;
- (ii) in relation to a question from Councillor Townson relating to whether the grant funding for Garthdee Alpine Sports had been withheld, to note that the Head of Finance would check and advise Councillor Townson outwith the meeting;
- (iii) in relation to questions from Councillors Jackie Dunbar and Townson relating to PVG checks, to note that the Chief Executive would liaise with officers and provide a response to the Committee; and
- (v) to otherwise approve the recommendations contained in the report.

INTERNAL AUDIT ANNUAL REPORT AND INTERNAL FINANCIAL CONTROL STATEMENT 2016/17 - IA/17/008

8. The Committee had before it a report by the internal Auditor which presented the Internal Audit Annual Report and Internal Financial Control Statement for financial year 2016/17.

The report recommended:

That the Committee -

- (a) note the Internal Financial Control Statement for 2016/17;
- (b) note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- (c) note that there has been limitation to the scope of Internal Audit work during 2016/17; and
- (d) note that no self-assessment has been undertaken as required by the Public Sector Internal Audit Standards as an external assessment is being completed by KPMG.

The Chief Internal Auditor advised that the Internal Audit team now had a basic level access to the CareFirst system to enable them to carry out the checks required as part of the audit process.

The Committee resolved:-

- (i) to note the information provided in relation to Internal Audit's access to the CareFirst System; and
- (ii) to otherwise approve the recommendations contained within the report.

INTERNAL AUDIT CHARTER - REPORT BY THE INTERNAL AUDITOR - IA/17/009

9. The Committee had before it a report by the Internal Auditor which sought agreement to amend the Internal Audit Charter as previously adopted on 28 April 2016.

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The report recommended:

that the Committee approve the Internal Audit Charter for implementation from 23 June 2017.

The Committee resolved:-

to approve the recommendation contained in the report

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10. The Committee had before it a report by the Chief Executive which presented the annual report of the Audit, Risk and Scrutiny Committee.

The report recommended:

That the Committee -

- (a) approve the annual report; and
- (b) refer the report to the Council for their consideration.

Councillor Allard sought clarification in relation to the Whistleblowing Policy and how it was operated throughout the Council, wherein the Policy Performance & Parliamentary Liaison Manager advised that during the period no complaints had been raised via the policy and that the policy had been approved by Committee although the operation of it may not be clearly notified to employees.

The Committee resolved:-

- (i) to note the information provided in relation to the Whistleblowing Policy;
- (ii) to request that a report be submitted to this Committee providing an update on the Whistleblowing Policy, how it is implemented, communicated and monitored throughout the organisation; and
- (iii) to otherwise approve the recommendations contained in the report.

REVIEW OF CAPITAL PROGRAMMES - CHI/17/153

11. The Committee had before it a report by the Interim Director of Communities, Housing and Infrastructure which provided an update on the progress of the Capital Programme Governance Review and the draft revised proposed governance arrangements.

The report recommended:

That the Committee -

- (a) note the revised terms of reference for the Strategic Asset and Capital Board, attached at Appendix 1;

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- (b) note the amended governance arrangements for Strategic Infrastructure Plan and Capital Plan delivery as outlined in this report and attached at Appendix 2, incorporating the delivery of City Centre Masterplan projects within these governance arrangements;
- (c) note that the Interim Director of Communities, Housing and Infrastructure be responsible for the Capital Programme until the restructure is undertaken;
- (d) note the Capital Governance Review Action Plan which is attached at Appendix 3;
- (e) approve that a monthly Members Reference Group, for the Capital Programme be established with membership of five Councillors, three nominated from the Administration and two nominated from the Opposition; and
- (f) note an Internal Audit in Quarter four has been scheduled to review the arrangements and their operation.

Councillor Cooke sought additional information in relation to what support mechanisms were being implemented to encourage officers to report when the project may be going wrong, wherein the Interim Director advised that there were various mechanisms including, Peer Group review sessions, support via the directorates and additional training.

Councillor Donnelly requested information relating to unforeseen overspends and how this would be managed wherein the Interim Director advised that proper management of the project would allow for issues to be detected and reported appropriately.

Councillor Jackie Dunbar sought clarification as to what powers the Members Reference Group would have to resolve any issues, wherein the Interim Director advised that that the Group would not have decision making powers and any issues would be reported to the appropriate Committee. She further advised that the purpose of the group would be to help members understand the project, how it was being managed and the financial controls in place.

Councillor Yuill sought assurance that if the Reference Group was established that full training would be provided to members to assist them in their role, wherein the Interim Director advised that full training would be provided.

The Committee resolved:-

- (i) to instruct the Chief Executive to bring forward as part of the Council Operating Structure – Senior Management report to Council on 23rd August all options on securing a Programme Director to oversee and be responsible for all Council Capital spend;
- (ii) to note the revised terms of reference for the Strategic Asset and Capital Board, attached at Appendix 1;
- (iii) to note the amended governance arrangements for Strategic Infrastructure Plan and Capital Plan delivery as outlined in this report and attached at Appendix 2,

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- incorporating the delivery of City Centre Masterplan projects within these governance arrangements;
- (iv) to note that the Interim Director of Communities, Housing and Infrastructure be responsible for the Capital Programme until the restructure is undertaken;
 - (v) to note the Capital Governance Review Action Plan which is attached at Appendix 3;
 - (vi) to instruct the appropriate senior officer under the new structure to report in Audit Quarter 4 on project management governance as set out in paragraph 3.2 of the report; and
 - (vii) to approve that a monthly Members Reference Group, for the Capital Programme be established with a membership of 5 Councillors, 3 nominated from the Administration and 2 nominated from the Opposition, and delegate authority to the Interim Director of Communities, Housing and Infrastructure, following consultation with Group Leaders, to set the Terms of Reference for this group.

RISK MANAGEMENT REPORT - CG/17/061

12. The Committee had before it a report by the Head of Legal and Democratic Services which provided an update on progress in implementing the agreed actions to support the delivery of the Risk and Assurance Improvement project.

The report recommended:

that the Committee note the progress made in delivering the project.

Councillor Samarai sought assurance that item 6 on the attached appendix would be completed by the end of June, wherein the Performance and Risk Manager advised that the majority of the work had been completed however it was unlikely to be completed by the end of June and that he expected it to be fully completed within a month.

Councillor Graham sought clarification in relation to the format of the Risk Registers and also whether Councillors could be issued with a copy of the new template, wherein the Performance and Risk Manager advised that there was a standardised template which had been amended and would be issued to all Services once final approval had been given by the Corporate Management Team. He further advised that the current training for members on risk could be amended and that the template would be issued to members.

The Committee resolved:-

- (i) in relation to a questions from Councillors regarding the Risk Register, to note that the format for the register had been amended and following final approval from the Corporate Management Team would be issued to all directorates to ensure a standardised format was being used across the Council; that risk management training for Councillors would be amended; and that a copy of the Risk Register template would be issued to the Committee; and

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- (ii) to otherwise approve the recommendation contained in the report.

CHI RISK REGISTER UPDATE - CHI/17/078

13. The Committee had before it a report by the Interim Director for Communities, Housing and Infrastructure which presented the Risk Register for the Service.

The report recommended:

that the Committee note the content of the risk register and advise any further action as appropriate.

Councillors Graham and Lumsden both requested that timescales be allocated to each of the actions to ensure that they were being progressed.

Councillor Lumsden sought clarification in relation to the Health and Safety Improvement Plan and who was responsible for it, wherein the Business Manager advised that the Senior Management Team discussed the Risk Register and the Health and Safety Improvement Plans to gain tighter control over the actions.

The Chief Executive advised that the process involved capturing all of the potential risks, identifying those that were like to happen and ensuring actions were in place to mitigate against the risks.

Councillor Graham advised that the Corporate and Directorate Health and Safety Improvement Plans would be scrutinised at the Corporate Health and Safety Committee to ensure controls were in place.

The Committee resolved:-

- (i) to note the information provided in relation to individual risks; and
- (ii) to note that the corporate and directorate health and safety improvement plans would be discussed at the Corporate Health and Safety Committee to ensure that controls were in place; and
- (iii) to otherwise approve the recommendation in the report.

WEBSITE BREACH - ACTION PLAN UPDATE - CG/17/033

14. The Committee had before it a report by the Head of Legal and Democratic Services which provided an update on the action plan that was produced in response to the website homepage breach which occurred on 28 January 2017.

The report recommended:

that the Committee note the content of the report and the attached action plan.

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The Committee resolved:-

to approve the recommendation contained in the report.

SCOTTISH PUBLIC SERVICES OMBUDSMAN AND INSPECTOR OF CREMATORIA COMPLAINT DECISIONS - CG/17/060

15. The Committee had before it a report by the Head of Legal and Democratic Services which provided information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council complaints since the last reporting cycle.

The report recommended:

that the Committee note the details of the report and recommends any additional actions as appropriate.

The Committee resolved:-

- (i) to note that in relation to item one contained in Appendix A of the report, a response was still awaited from the SPSO; and
- (ii) to otherwise approve the recommendation contained in the report.

ALEO OPERATING MODEL - CG/17/073

16. The Committee had before it a report by the Head of Legal and Democratic Services which sought approval for a new Arms-Length External Organisation (ALEO) operating model to provide assurance to the Council on the effectiveness of ALEO systems of governance, with a view to ensuring that the outcomes of those organisations were being monitored and the risks to those organisations and the Council were mitigated and managed.

The report recommended:

That the Committee –

- (a) note the options appraisal undertaken to identify a preferred option for a refreshed ALEO operating model as attached under Appendix A;
- (b) note the Good Governance Institute's recommendation from their report to Council dated September 2016, that the level of ALEO scrutiny should be proportionate to the level of risk to the Council and that the previous iteration of the Governance Hub was administratively burdensome and unsupportable in the future; and
- (c) note CIPFA's view as detailed in their report to Council dated 9 January 2017, that Council should strike a balance between oversight of ALEOs and allowing their freedom to operate as independent legal entities; and
- (d) approve the adoption of Option 3: Assurance Hub Model as the Council's new ALEO operating model.

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Councillor Jackie Dunbar sought clarification in relation to whether ALEO Board meetings could be held in public and what the position would be in relation to an ALEO refusing to appoint a Director, wherein the Service Manager for Legal Services advised that the Service Level Agreement would require to be amended, however, as the ALEO's were private companies it may not be possible to insist that meetings were held in public and that in relation to what the position would be where an ALEO refused to appoint a Director, that the Service Manager for Legal Services would clarify the position on this and advise members fully on both points out with the meeting.

Councillor Duncan enquired as to whether Terms of Reference for the Assurance Hub had been drawn up wherein the Senior Democratic Services Manager advised that these would be presented to this Committee at its next meeting.

The Convener moved, seconded by Councillor Jackie Dunbar:-

That the Committee approve recommendations (a) to (c) and amends recommendation (d) as follows:

(d) Approve the adoption of Option 3: Assurance Hub Model as the Council's new ALEO operating model; noting that each ALEO will present their business plan or annual plan to the relevant service committee once a year; and recommends to the meeting of Full Council on the 23rd of August 2017 that the Council nominates at least one Councillor as a board member to each ALEO, subject to any necessary compliance with any relevant legal rules, process and agreement with the ALEO.

Councillor Laing moved as an amendment, seconded by Councillor Donnelly:-

That the Committee approve recommendations (a) to (c) and amends recommendation (d) as follows:

(d) Approve the adoption of Option 3: Assurance Hub Model as the Council's new ALEO operating model; noting that each ALEO will present their business plan or annual plan to the relevant service committee once a year.

On a division, there voted:-

For the motion (8) – The Convener, Vice Convener and Councillors Allard, Cooke, Jackie Dunbar, McLellan, Samarai and Townson.

For the amendment (9) – Councillors Bell, Donnelly, Duncan, Graham, Laing, Lumsden, Avril MacKenzie, Lesley Dunbar and Sellar.

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The Committee resolved:-

- (i) in relation to questions asked relating to whether ALEO Board meetings could be held in public, to note that the Service Level Agreement would require to be amended, however, as the ALEO's were private companies it may not be possible to insist that meetings were held in public and that in relation to what the position would be where an ALEO refused to appoint a Director, that the Service Manager for Legal Services would clarify the position on this and advise members fully on both points out with the meeting;
- (ii) in relation to a question from Councillor Duncan relating to the Terms of Reference for the Assurance Hub, to note that these would be presented to this Committee at its next meeting;
- (iii) to otherwise adopt the terms of the amendment.

GENERAL FUND REVENUE BUDGET SETTING - REPORT BY THE INTERNAL AUDITOR - IA/AC/17/019

17. The Committee had before it a report by the Internal Auditor which presented an audit in relation to the General Fund Revenue Budget Setting which reviewed the procedures used in setting the Council's revenue budget for 2016/17.

The Committee resolved:-

to note the content of the report and endorse the recommendations for improvement as agreed by the Service.

VEHICLES AND DRIVER RECORDS - REPORT BY THE INTERNAL AUDITOR - IA/AC/17/020

18. The Committee had before it a report by the Internal Auditor which presented an audit in relation to Vehicles and considered whether or not actions put in place to remedy the concerns which were raised by the Traffic Commissioner were working as intended.

In response to questions from Councillor Jackie Dunbar relating to the audit process and the content of the report, the Fleet Manager advised that the Service welcomed the audit and agreed the audit recommendations for further improvements to the Service. He further advised that in relation to Cross Service Compliance that regular meetings were taking place with staff to build the relationships and that additional training and support was required in some areas. In relation to the high level of mistakes identified within workshop records, the latest figures had shown an improvement and further support would be put in place to ensure all records were correct.

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The Committee resolved:-

- (i) to note the information provided from the Service in relation to the details within the audit report; and
- (ii) to otherwise note the content of the report and endorse the recommendations for improvement as agreed by the Service.

2017/18 ACC LOCAL SCRUTINY PLAN

19. The Committee had before it a report by KPMG, External Auditor which presented the Local Scrutiny Plan, April 2017 to March 2018. The Local Scrutiny Plan sets out the planned scrutiny activity for the Council and is based on a shared risk assessment undertaken by a Local Area Network.

The Committee resolved:-

- (i) to note that the reference to Community Health Partnerships had been removed from the final version; and
- (ii) to otherwise note the content of the report and the appended scrutiny plan.

INTERNAL AUDIT - FOLLOW UP OF RECOMMENDATIONS - IA/17/011

20. The Committee had before it a report by the Internal Auditor which advised on the progress made by Services with implementing recommendations that were agreed in Internal Audit reports since April 2015.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendices.

Councillor Jackie Dunbar sought assurance that timesheets were being signed off by a Team Leader, wherein the Head of Land and Property Assets advised that the timesheets mainly related to school cleaners and were being signed off in the traditional way and that the new online system would be available for the start of the new school term in August 2017.

Councillor Jackie Dunbar requested an explanation as to why the Strategic Risk Register had not been reported to this Committee wherein the Chief Executive advised that there had been a delay due to the extensive work undertaken to revise the risk management system to ensure it was correct. She also advised that discussions in relation to having an operational risk register, corporate risk register and a strategic risk register had occurred and that all corporate risks would be included on the strategic risk register as it was important that all corporate risks were identified and managed. The strategic risk register was scrutinised at the Corporate Management team meetings on a monthly basis.

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The Committee resolved:-

- (i) to note the additional information provided in relation to the Cleaning Payroll audit, specifically the authorisation process for timesheets;
- (ii) to note the additional information provided in relation to the Risk Management audit, specifically the reasons for the delay in the production of the Strategic Risk Register; and
- (iii) to otherwise note the content of the report and request all Services to undertake the work required to complete the outstanding audit recommendations.

APPOINTMENT OF MEMBERS TO CHSC - CG/17/076

21. The Committee had before it a report by the Head of Legal and Democratic Services which sought the appointment of members to the Corporate Health and Safety Committee.

The report recommended:

That the Committee –

- (a) note the composition of the Corporate Health and Safety Committee as detailed at section 3.1 of the report as approved by Council on 17 May 2017; and
- (b) agree to appoint members to the Corporate Health and Safety Committee

The Committee resolved:-

- (i) to request that the names of members be provided to Committee Services; and
- (ii) to otherwise approve the recommendations contained in the report.

AUDIT SCOTLAND VALUE FOR MONEY NATIONAL REVIEWS - OCE/17/010

22. The Committee had before it a report by the Chief Executive which presented a summary of Audit Scotland's national studies published in the last cycle together with any actions taken or agreed to be taken by the Council in response to those studies.

The report recommended:

That the Committee –

- (a) note the detail of the Audit Scotland national reports: Principles for a Digital Future and Local Government in Scotland: Performance and Challenges 2017; and
- (b) considers officers' comments.

The Committee resolved:-

to approve the recommendations contained in the report.

AUDIT, RISK AND SCRUTINY COMMITTEE
27 June 2017

EXEMPT INFORMATION

In accordance with the decision taken at article 1 of this minute, the following item of business was considered with the press and public excluded.

SOLAR PHOTOVOLTAIC AGREEMENT - REPORT BY THE INTERNAL AUDITOR - IA/17/007

23. The Committee had before it a report by the Internal Auditor which presented the outcome from the work that the Committee requested that Internal Audit undertake relating to the Solar Photovoltaic Agreement contract and decision making process.

The report recommended:

That the Committee review, discuss and comment on the issues raised within the report.

Members asked various questions in relation to the audit undertaken and the current position of the operation of the solar panels.

The Committee resolved:-

- (i) to note the information provided in relation to the current operation of the solar panels;
- (ii) to note the thanks given to the Internal Auditor for the work undertaken on the audit; and
- (iii) to otherwise note the content of the report.

- **COUNCILLOR STEPHEN FLYNN, Convener**

AUDIT, RISK AND SCRUTINY COMMITTEE
27 June 2017

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AUDIT, RISK AND SCRUTINY

COMMITTEE BUSINESS

26 September 2017

Please note that this statement contains a note of every report which has been instructed for submission to this Committee. All other actions which have been instructed by the Committee are not included, as they are deemed to be operational matters after the point of committee decision.

	<u>Minute Reference</u>	<u>Committee Decision</u>	<u>Update</u>	<u>Lead Officer(s)</u>	<u>Report Due</u>
1.	Audit, Risk and Scrutiny 23 Feb 17 Article 12	3rd Don Crossing – Internal Audit Report (i) in response to concerns raised from members over the management of the project and other projects across the city, to request the Internal Auditor to undertake an audit to ascertain if adequate controls were in place within the Programme Management Office;		D Hughes	Feb 2018
2.	Audit, Risk and Scrutiny 27 June 17 Article 10	Audit, Risk and Scrutiny Committee Annual Report (Whistleblowing Policy) (ii) to request that a report be submitted to this Committee providing an update on the Whistleblowing Policy, how it is implemented, communicated and monitored throughout the organisation.	A report is on the agenda	D Foreman	26 Sept 17

3.	<p>Audit, Risk and Scrutiny</p> <p>27 June 17 Article 16</p>	<p>ALEO Assurance Hub – Terms of Reference</p> <p>(ii) in relation to a question from Councillor Duncan relating to the Terms of Reference for the Assurance Hub, to note that these would be presented to this Committee at its next meeting.</p>	<p>A report is on the agenda</p>	<p>I Robertson</p>	<p>26 Sept 17</p>
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CYCLE 3 - COMMITTEE STATISTICS					
The Tracker Shows the Reports Which are Expected to be Submitted to Future Committee Meetings					
Report Title	Committee date	Report author	Head of Service	Purpose of Report	Explanation if delayed or withdrawn
Internal Audit Progress and Performance	26/09/2017	David Hughes	Fraser Bell	to provide an update on progress with the 2016/17 and 2017/18 audit	
Annual Information Governance Report & the General Data Protection Regulation	26/09/2017	Helen Cannings	Simon Haston	To provide Committee with an annual report on the Council's Information Governance Performance, and information about the incoming General Data Protection Regulation, and the Council's readiness approach.	
System of Risk Management	26/09/2017	Neil Buck	Fraser Bell	update on progress in implementing the agreed actions to support the delivery of the Risk and Assurance Improvement project	
Attendance Management	26/09/2017	David Hughes	Fraser Bell	To test compliance with the attendance management policy and determine if it is having a positive effect on attendance	
PECOS System	26/09/2017	David Hughes	Fraser Bell	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled	request to change to February 2018 to align to external audit requirements
Care of Children and Young People	26/09/2017	David Hughes	Fraser Bell	To obtain assurance that care needs are being identified, planned and recorded accurately and that costs charged are appropriate and adequately controlled	anticipated submission to Committee changed to November due to internal audit staffing and availability of service management
Building Maintenance - Year End Stock Checks	26/09/2017	David Hughes	Fraser Bell	Attend a selection of locations during 2016/17 year end stock taking and ensure accuracy of process. To include review of stock procedures	
Corporate Landlord Responsibilities	26/09/2017	David Hughes	Fraser Bell	Ensure that the Council has systems in place that provide assurance over compliance with the legal requirements in relation to its corporate landlord role	
Vehicle Maintenance Workshops	26/09/2017	David Hughes	Fraser Bell	Ensure that adequate procedures are in place to control the function and obtain best value in maintaining vehicles	anticipated submission to Committee changed to November due to internal audit staffing
Internal Audit Follow Up on Recommendations since 15/16	26/09/2017	David Hughes	Fraser Bell	provide an update on where services were with implementing agreed recommendations	
Audited Annual Accounts 2016/17	26/09/2017	Lesley Fullerton	Steven Whyte	to present the audited annual accounts	
Annual Report to Members and the Controller of Audit on the 2016/17 Audit	26/09/2017	External Auditor		to provide External Audit's annual report in relation to the audit of the annual accounts	

Housing Benefit and Council Tax Reduction	26/09/2017	David Hughes	Fraser Bell	Consider whether benefits being paid to claimants are supported by appropriate documentary evidence, that the calculation of benefit is accurate, and that it has been properly recorded for subsidy purposes.	
Disclosure Checks	26/09/2017	David Hughes	Fraser Bell	Consider whether arrangements in place to ensure that appropriate employees/volunteers have been checked are adequate.	
ALEO's	26/09/2017	David Hughes	Fraser Bell	Consider how Services manage their ALEO's including payments and performance	
Business Continuity Planning	26/09/2017	David Hughes	Fraser Bell	Ensure that Business Continuity Plans are in place as required by the Business Continuity Policy and that arrangements adequately manage identified risks	
Application of Health and Safety measures and practices in schools	26/09/2017	David Hughes	Fraser Bell	Consider whether arrangements in place adequately manage risk responsibility in relation to hazard information, handling and disposal of chemicals, safety in microbiology, material of living origin and routine fume cupboard testing.	
Social Work Transport	26/09/2017	David Hughes	Fraser Bell	Consider whether appropriate arrangements are in place to secure transportation in a cost effective and well managed way	request to amend date of submission to November due to no response from the Service
Office of the Surveillance Commissioner Inspection	26/09/2017	Jessica Anderson	Fraser Bell	to present the findings from the OSC Inspection	
Corporate Investigation Team - Fraud Annual Report 2016/17 and Business Plan 2017/18	26/09/2017	Brian Muldoon	Steven Whyte	to present the annual Fraud report	Report has been deferred at the request of the Service to enable them to progress the fraud business plan
Whistleblowing	26/09/2017	David Forman	Morven Spalding	to provide Committee with details on the implementation, communication and monitoring of the Whistleblowing policy, following a request at the last Audit, Scrutiny and Risk Committee of 27 June 2017.	
Garthdee Alpine Sports Audit	26/09/2017	David Hughes	Fraser Bell	to present the outcome of the audit in relation to Garthdee Alpine Sports	
ALEO Assurance Hub's Terms of Reference	26/09/2017	Iain Robertson	Fraser Bell	To set out an ALEO Governance Framework and ALEO Assurance Hub Terms of Reference for members to consider and adopt.	
Ombudsman Recommendations	26/09/2017	Lucy McKenzie		In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle.	

Wellington Brae Report	26/09/2017	Bernadette Marjoram		The purpose of this report is to provide the Committee with the Management Response to the review undertaken by the Corporate Investigation Team (CIT) into the circumstances surrounding the Wellington Brae project.	
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CYCLE 4 - COMMITTEE STATISTICS					
The Tracker Shows the Reports Which are Expected to be Submitted to Future Committee Meetings					
Report Title	Committee date	Report author	Head of Service	Purpose of Report	Explanation if delayed or withdrawn
Internal Audit Progress and Performance	23/11/2017	David Hughes	Fraser Bell	to provide an update on progress with the 2016/17 and 2017/18 audit	
ALEO Governance	23/11/2017	Roddy MacBeath	Fraser Bell	to provide an update in relation to the ALEO Operating Model	
System of Risk Management	23/11/2017	Neil Buck	Fraser Bell	update on progress in implementing the agreed actions to support the delivery of the Risk and Assurance Improvement project	
Travel Costs	23/11/2017	David Hughes	Fraser Bell	Ensure that travel arrangements and claims are made in accordance with the Council's Travel Policy, Procedure and Guidance	
Fixed Asset Register	23/11/2017	David Hughes	Fraser Bell	Consider whether procedures for ensuring timely recording of the acquisition/disposal of assets are adequate and that revaluations are undertaken in accordance with recognised best practice.	Request to move to February 2018 to align to External Audit requirements
Placing Requests	23/11/2017	David Hughes	Fraser Bell	To review decision making processes and consider whether these are adhered to.	
Vehicle Usage	23/11/2017	David Hughes	Fraser Bell	Ensure that adequate procedures are in place to ensure that vehicles are being used effectively for business purposes and any non-business use is appropriately reported.	
Social Work Payroll	23/11/2017	David Hughes	Fraser Bell	Consider whether all aspects of payroll administration (new starts, leavers, timesheet completion and authorisation, overtime approval) are adequately controlled	
Social Work Financial Assessments	23/11/2017	David Hughes	Fraser Bell	Consider whether adequate arrangements are in place across the Service to undertake financial assessments in an accurate and efficient manner	
Internal Audit Follow Up on Recommendations since April 15/16	23/11/2017	David Hughes	Fraser Bell	provide an update on where services were with implementing agreed recommendations	
Audit Scotland Value for Money National Reviews	23/11/2017	Martin Murchie		summary of Audit Scotland's National Studies	
Internal Audit Review	23/11/2017	External Auditor		To advise the Committee of the outcome of the review of the Council's Internal Audit provision and agree the development actions proposed	

Integregation Joint Board - Integration and Change Funding	23/11/2017	David Hughes	Fraser Bell	Ensure appropriate governance is in place to manage delivery of funded projects and use of the funds	
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CYCLE 5 - COMMITTEE STATISTICS

The Tracker Shows the Reports Which are Expected to be Submitted to Future Committee Meetings

Report Title	Committee date	Report author	Head of Service	Purpose of Report	Explanation if delayed or withdrawn
CH&I Risk Register		Mike Hearn	Director	Annual report	
Internal Audit Progress and Performance		David Hughes	Fraser Bell	to provide an update on progress with the 2016/17 and 2017/18 audit	
Bond Governance		David Hughes	Fraser Bell	Consider whether arrangements have been put in place to ensure compliance with the London Stock Exchange requirements and safeguarding the Council's credit rating	
Financial Ledger System		David Hughes	Fraser Bell	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled	
Your HR		David Hughes	Fraser Bell	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled	
Major IT Business Systems		David Hughes	Fraser Bell	Ensure that the risk of major IT Business Systems failure is adequately managed	
Post Election Training for New Council		David Hughes	Fraser Bell	Ensure that appropriate arrangements were made for training Councillors following the May 2017 Local Government Elections and that training was delivered and was effective	
Nursery Education - Pre-School Commissioned Places		David Hughes	Fraser Bell	Consider whether statutory obligations are being delivered and that adequate control is exercised over expenditure.	
Capital Contracts		David Hughes	Fraser Bell	Ensure appropriate arrangements are in place regarding the tendering for and monitoring of a sample of capital contracts and value for money is being obtained	
Care Management		David Hughes	Fraser Bell	To obtain assurance that care needs are being identified, planned and recorded accurately and that costs charged are appropriate and adequately controlled	

3rd Don Crossing - Programme Management Office		David Hughes	Fraser Bell	in response to concerns raised from members over the management of the project and other projects across the city, to request the Internal Auditor to undertake an audit to ascertain if adequate controls were in place within the Programme Management Office;	
Programme Management- Internal Audit		Martin Allan	Fraser Bell	Originated from Gov Review Bond Tracker	

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Aberdeen City Council

Annual audit report to the Members of Aberdeen City Council
and the Controller of Audit for the year ended 31 March 2017

15 September 2017

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Aberdeen City Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.



Executive summary

Key messages

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Audit conclusions

We intend to issue unqualified audit opinions on the financial statements of Aberdeen City Council and Aberdeen City Council Charitable Trusts following agreement of the outstanding technical matters and completion of audit work.

We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy plan and document.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork and were supported by high quality audit work papers.

We identified ten audit differences, of which all have been adjusted by management. We have no matters to highlight in respect of independence.



Financial position

The 2016-17 deficit on the provision of services of £58.6 million is £11.7 million lower than the deficit reported in 2015-16. Following statutory adjustments between the accounting basis and funding basis of £46.0 million, and transfers to earmarked reserves of £0.1 million, there was a decrease in usable reserves of £12.5 million including an increase of £0.5 million to the Housing Revenue Account (“HRA”).

Long term liabilities and cash increased by £315 million compared to the prior year primarily as a result of the bond issuance. Capital expenditure in 2016-17 amounted to £223 million, with significant progress made against the billion capital plan.



Financial management and financial sustainability

The Council has a strong financial position with £11.3 million uncommitted general fund balance and an additional £8.3 million financial risk fund within earmarked reserves.

During budget setting there is ongoing consultation with members, service users and other key stakeholders. This results in an open and transparent budget setting process and supports effective financial management.

The Council has an estimated savings requirement of £125 million over the next five years, with £22.4 million to be delivered in 2017-18 subject to underlying assumptions. Savings are anticipated to be delivered through the transformation project’s service redesign and the voluntary redundancy programme.



Executive summary (continued)

Key messages

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Governance and transparency

The Council has an effective governance structure through supporting committees meetings, the scheme of delegation and standing orders. On the whole it demonstrated effective scrutiny, challenge and transparency on decision making through the various levels of committee reporting reviewed.

A governance review is being undertaken to enhance these arrangements and this demonstrates a commitment to improvement.

Systems of internal control operated effectively throughout the year.



Value for money

We consider the Council demonstrates a commitment to achieving value for money and has appropriate arrangements for complying with the following the public pound code.

Options appraisals and business cases processes have developed over the year, with value for money considerations being evident. There are a number of areas of partnership working with other public sector entities and clear evidence of a commitment from management for continuous improvement.



Outlook

The Council approved a balanced budget for 2017-18 on 22 February 2017, with a reduction of £13 million in funding from Scottish Government and savings of £22.4 million. The budget supports the Council's Strategic Business Plan for 2017-18 which is aligned to Aberdeen City's Community Planning Partnership's Local Outcome Improvement Plan ("LOIP").

As well as the statutory obligation to set a balanced budget, the Council must maintain the credit rating obtained from Moody's Investor Service and ensure compliance with the London Stock Exchange listing rules. Compliance is controlled effectively by the bond governance working group and has been rolled out across the local authority.



Introduction

Scope and responsibilities

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Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Aberdeen City Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at Aberdeen City Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit, risk and scrutiny committee (“ARSC”) at the outset of our audit.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of the following wider scope areas:

- financial management;
- financial sustainability;
- governance and transparency; and
- value for money

Accountable officer responsibilities

The Code sets out Aberdeen City Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error

- financial position; and
- Best Value

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix two sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, 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.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to ARSC, together with previous reports to ARSC throughout the year, discharges the requirements of ISA 260.

Financial position



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Overview

The Council delivered a surplus of £2.5 million on the general fund, before bond effective interest rate charges of £3.8 million. This underlying surplus was delivered despite the challenges that face local authorities, with growing demand on service delivery, real time funding settlement reductions and uncertainty in the current economic climate. This was achieved while taking the ambitious step of obtaining a credit rating and issuing the public bond. The Council demonstrates pace and depth in measures to secure financial sustainability.

As highlighted in the Audit Scotland report, *Local Government in Scotland; Performance and challenges 2017*, total revenue funding from the Scottish Government has decreased overall by 9.2% in real terms since 2010-11. The Council's real term funding cut is 6%.

In November 2016 the Council became the first local authority in Scotland to issue a public bond, with £370 million listed on the London Stock Exchange. The finance raised is being used to deliver the Council's transformational capital and infrastructure programme.

Significant capital expenditure of £223 million was delivered in 2016-17, with progress made against the city centre masterplan and the Aberdeen Exhibition Conference Centre, an increase of 70% on the prior year's capital expenditure.

The new 'Target Operating Model' was approved in August 2017 and the Strategic Transformation Committee created to direct the planned £125 million of savings over the next five years. The Council has set aside an earmarked reserve of £6 million to fund this in 2017-18.

The headline financial position figures are shown opposite. Further details are provided in the following pages.

Deficit on provision of services

£58 million

2015-16 £70 million

Surplus on general fund

£3.5 million*

2015-16 £5.3 million

Total reserves

£1,493 million

2015-16 £1,525 million

Total long term borrowing

£901 million

2015-16 £465 million

Net defined benefit liability

£250 million

2015-6 £251 million

Capital financing requirement

£621 million

2015-16 £499 million

* Surplus of £3.5 million before bond indexation and effective interest rate adjustments of £3.8 million to give a deficit of £0.3 million.

Financial position (continued)



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Comprehensive income and expenditure statement

There are changes to the format of the comprehensive income and expenditure statement ("CIES") as a result of the Chartered Institute of Public Financial Accountants ("CIPFA") disclosure requirements on 'telling the story'. This enables the reader of the accounts to better understand the reconciliation from reported budget performance to statutory position, through the inclusion of the Expenditure and Funding Analysis ("EFA"). The table below summarises the amounts presented in the CIES under the new format.

Comprehensive income and expenditure statement			
	2016-17 £000	2015-16 £000	Variance £000
Cost of services	509,163	525,661	(16,498)
Other operating expenditure	(2,831)	(3,264)	(433)
Financing and investment income and expenditure	32,657	26,575	6,082
Taxation and non specific grant income	(480,392)	(478,633)	(1,759)
Deficit on the provision of services	58,597	70,339	(11,742)
Other comprehensive income and expenditure	(26,827)	(403,960)	(377,133)
Total comprehensive income and expenditure	31,770	(333,621)	(301,851)

The key movements in the CIES relate to:

- Cost of services reduced in part due to a range of savings achieved across services including procurement reform review, digital transformation and using flexible working to create efficiencies.

- Financing and investment income increased by £6.1 million, primarily due to the bond interest charges of £3.8 million. This was offset by a £1.7 million increase in taxation and non specific grant income as a result of recognition of £3.4 million non-domestic rate income relating to 2015-16, which was notified as being eligible to be retained.
- Other comprehensive income and expenditure included a surplus on revaluation of £14.6 million, in comparison to a surplus of £352 million in 2015-16. An actuarial gain of £12.6 million was also included (2015-16: £52.5 million). Together the differences in these amounts explain the significant movement in other comprehensive income and expenditure.

Performance against budget

The Council set a balanced budget for 2016-17, excluding the use of earmarked reserves and statutory adjustments. During the year, it was identified that there were emerging areas of overspend. Management took swift action and issued instructions on managing the budget for the final three months of the year. This resulted in year end position of a surplus of £3 million. The main areas of under or over spend against budget during the year were:

- Within communities, housing and infrastructure there were a number of vacancies not filled, resulting in a £4.7 million underspend. However this was offset by an increase in agency costs. The bus lane enforcement fund was approved for use against staff costs and road maintenance to reduce costs against budget of £1.2 million.
- Underspend in corporate governance due to lower than expected staff costs (£1.5 million) were partly offset by the impact of increasing legal provisions (£0.7 million).
- Out of authority placements for teachers and social workers resulted in a £3.4 million overspend in education and children's service.
- The business rate incentivisation scheme provided additional income of £2.7 million.

Financial position (continued)



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Balance sheet

	2016-17 £m	2015-16 £m	Variance £m
Long term assets	2,522	2,436	86
Current assets	408	125	283
Current liabilities	(185)	(216)	(31)
Long term liabilities	(1,252)	(821)	431
Net assets	1,492	1,525	(33)
Useable reserves	87	100	(13)
Unusable reserves	1,405	1,425	(20)
Total reserves	1,492	1,525	(33)

The key movements on the Council's balance sheet from the prior year, as identified in the table above are:

- Fixed assets increased significantly due to capital investment of £223 million, offset by £14 million of disposals and downward revaluations of £43 million (see page 15).
- Current assets were significantly higher as a result of the bond issuance. A large portion placed in short term investments, an increase of £110 million from prior year, with the rest held in the Council's bank accounts.
- Debtors increased by £9 million, primarily due to a debtor due from NHS Grampian in relation to the integration joint board ("IJB") in respect of change funds not yet spent.
- Long term borrowings increased due to recognition of the bond and premium, with short term borrowing decreasing by £31 million, in line with the Council's treasury management policy.

Reserves

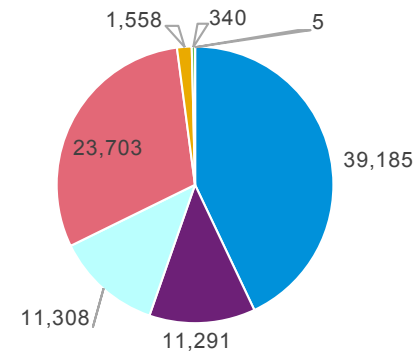
The general fund balance decreased by £8.4 million in 2016-17 to £50.5 million. This included changes in earmarked reserves; comprising of the creation of a £6 million change fund, £3.8 million transferred from the capital fund in relation to bond interest charges and a number of other transfers. Movements out of earmarked funds were for spend on investment strategy, welfare reform and devolved management of school funds. No change was made to the £8.4 million risk fund for future uncertainties.

The uncommitted general fund balance as at 31 March 2017 was £11.3 million and there is no intention to draw on this in future years. Elected member approval is required to earmark these funds.

The Council's other statutory funds (capital, insurance, city improvement and Lord Byron) decreased by £0.7 million to £29.4 million.

£87.4 million useable reserves are summarised in the pie chart below.

Usable reserves (£000)



- General fund - earmarked reserves
- General fund - unearmarked reserves
- Housing revenue account
- Capital fund
- Insurance fund
- City improvement fund
- Lord Byron fund

Financial position (continued)



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Capital programme

Capital monitoring is managed and monitored by the newly appointed Strategic Asset and Capital Plan Board and at the year end the Council noted the following projects progress with the major capital investment programme being undertaken.

- Aberdeen Western Peripheral Route (2016-17 spend £7.19 million): due for first stage completion as planned, however some delays with a third party have meant the budgeted expenditure for 2017-18 has transferred later into the timeline and has decreased by £5 million.
- 3rd Don Crossing (2016-17 spend £5.25 million): on track for budget completion in 2017-18.
- A96 Park and Choose/Dyce Drive Link Road 2016-17 spend £5.53 million): additional £1 million expenditure allocated for 2017-18.
- AECC development (2016-17 spend £70.48 million) is in the major construction stage and the remaining budgeted expenditure is £288 million over the course of three years.

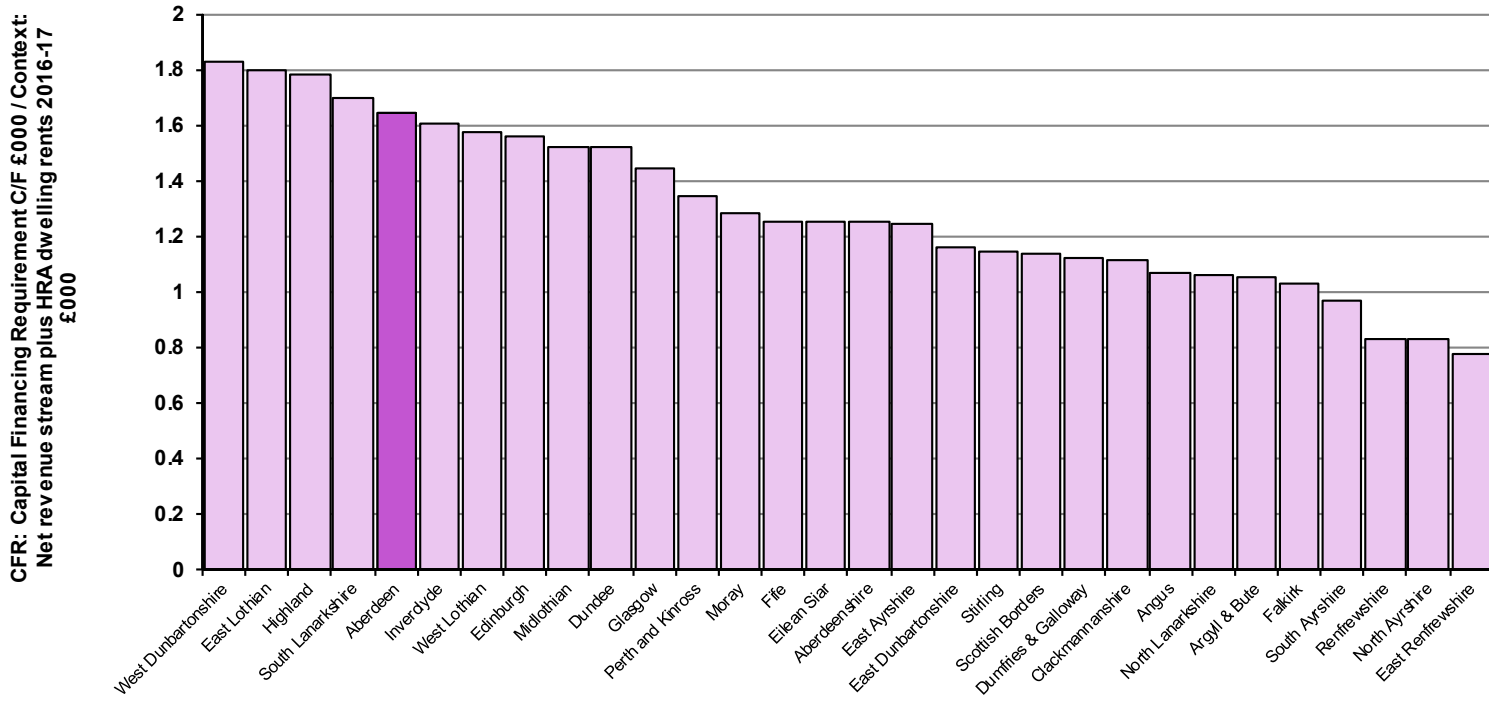
Although the Marischal Square development is not yet on the balance sheet due to the finance lease arrangements, the Council continues to monitor the progress and uptake on rental areas. There have been minor delays and the project is due to complete in late 2017.

Financial position (continued)



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In a benchmarking study carried out by Audit Scotland, Aberdeen City Council has the fifth largest capital finance requirement in the context of the net revenue stream plus Housing Revenue Account (“HRA”) dwelling rates. This shows Aberdeen is making significant capital investment in comparison to the majority of Scottish authorities. The requirement supports the city centre development to improve Aberdeen City, and the Council performed appropriate due diligence to obtain finance and ensure enough resource is available to finance the debt.



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Financial position (continued)



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Financial plans 2017-18 and beyond

The budget for 2017-18 was approved by Council on 22 February 2017, and takes into account likely cost pressures and assumes a decrease in grant funding from Scottish Government. The extent of reductions will be influenced by the wider economic climate and government policies.

The Council operates on a five year cyclical basis in terms of its strategic and financial planning, albeit detailed budgets are only approved on an annual basis once the funding settlement has been confirmed by Scottish Government.

The key assumptions used in setting the 2017-18 budget include;

- transformation projects forecast to generate savings, however with inherent uncertainty around how successfully these projects can be implemented and the savings delivered;
- the Council's credit rating is maintained;
- inflation may exceed budgeted provisions; this is heightened by the impact of Brexit on the value of the Sterling and the effect this has on the indexation of the bond; and
- 1% has been agreed for staff costs increase by COSLA and is in line with national pay expectations in the public sector, this is included in all five years.

There are additional risks that the current economic climate creates over income levels in areas such as commercial rent income and council tax collection levels. Similarly there is a risk over increased expenditure due to the ageing populations and welfare reform.

In setting the 2017-18 budget, management calculated a deficit of £17.2 million. Service options totalling £31.9 million were presented to members in setting the budget, and a total of £22.4 million of savings proposals were approved. The revised surplus was £5.2 million, with the intention that this would be used to fund new initiatives and the change fund during the year.

A similar methodology has been used in setting the five year budget to 2021-22, as shown in the table below. Cumulative savings proposals of £129 million were approved, however further cumulative savings of £162 million will be required over the five year period to breakeven.

Some of the initiatives to provide efficiencies and raise other sources of funding include:

- smarter procurement, £3 million each year;
- building service apprentice scheme, £0.4 million each year;
- remove staffing vacancies, £5.7 million each year;
- applying a 3% council tax increase, £45 million in total; and
- increase building services income by £1 million per year.

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
Gross service costs	666,339	683,653	699,324	714,513	728,595
Gross income	(649,095)	(648,213)	(639,220)	(633,608)	(631,076)
Net deficit	17,244	35,440	60,104	80,905	97,519
Savings proposals approved	(22,406)	(26,728)	(26,753)	(26,778)	(26,803)
Potential (surplus) / deficit	(5,162)	8,712	33,351	54,127	70,716

As part of the implementation of the 'target operating model', management reviewed the overall scale of savings required by the Council over the five year period. It has been agreed that in 2018-19 £7 million of reserves will be utilised as a transformation investment, and a further £8 million in 2019-20.

Financial position (continued)



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Going concern

The Council had net assets of £1.5 billion (2015-16 £1.5 billion) as at the balance sheet date. Net assets decreased on 2015-16 by £32 million, reflecting the total comprehensive expenditure for the year.

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed revenue support grant (which includes non-domestic rates income) of £313 million is sufficient to meet debts as they fall due. With the significant increase in long term debt, the level of interest to finance this debt will increase, potentially putting further pressure on the Council's finances.

The Council recognised a surplus on the provision of services in the year, providing further comfort over the Council's financial position. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated into budgets.

Whilst the budget for 2017-18 is breakeven, a decision to utilise £7 million of reserves in 2018-19 could present additional financial risks in future years. Management is aware of the significant financial pressures and is taking appropriate action to balance budgets. From a statutory going concern position (i.e the ability of the Council to remain a going concern for the twelve month period from the accounts being signed), the budgets set and plans in place do not give rise to a going concern risk.

Conclusion

The Council has a strong net assets position supported with £11.3 million uncommitted reserves and a positive cash flow position forecast for 2017-18.

The Council has prepared short, medium and long term financial forecasts which are inherently dependant on a number of assumptions out with the Council's control. Management has identified potential savings and has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

We are content that the going concern assumption is appropriate for the Council in light of the above.

Financial statements and accounting

Audit conclusions



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Audit opinion

Our audit work is substantially complete with the exception of the WGA and CJA grant claim (see page 52). Following approval of the annual accounts by the ARSC we intend to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2017, and of the deficit for the year then ended. We also intend to issue unqualified opinions on the truth and fairness of the state of the Aberdeen City Council Charitable Trusts' affairs as at 31 March 2017.

There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

The Aberdeen City Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

Ten audit misstatements were identified during the audit, of which all have been adjusted. There are no unadjusted audit misstatements.

Written representations

Our representation letter will not include any additional representations to those that are standard as required for our audit.

Financial statements and accounting

Audit conclusions (continued)



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Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £7.75 million for the Council's standalone financial statements, and £7.85 million for the Group financial statements. This equates to 1% of cost of services expenditure, adjusted for revaluation decreases recognised in the year. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £5 million. For the Group accounts it was £5.1 million. We report all misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the head of internal audit and reviewed internal audit reports as issued to ARSC to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

- attended ARSC meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

- Management override of controls fraud risk;
- Fraudulent revenue recognition;
- Revaluation of property, heritage assets, plant and equipment;
- Accounting for the bond issuance;
- Retirement benefits; and
- Capital expenditure.

Other focus areas:

- Presentation of the financial statements; and
- Consolidation of the IJB.

No further significant risks or other matters were identified during our audit work.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls and we do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

Financial statements and accounting

Audit conclusions (continued)



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Financial statements preparation

Draft financial statements and high quality working papers were provided at the start of the audit fieldwork on 12 June 2017. This included the management commentary and annual governance statement. This is earlier than other councils we have worked with in Scotland, and demonstrates the strength of the finance team's skills and understanding of the day-to-day operations of the Council. Accounting for the bond issuance had not been completed at the time of the draft accounts being published and therefore included disclosure to this effect. With more complex financial transactions expected in future years, management is intending to work with the finance team to support faster accounts close.

A second version of the financial statements was provided on 17 August. Whilst these addressed most audit comments on presentational matters, accounting for the bond issuance had not been finalised and therefore was not included. A final draft of the financial statements, including accounting for the bond issuance were received on 7 September.

The audit team provided some initial comments to enhance the management commentary and governance statement prior to the draft financial statements being published.

Whilst the Council does not have a premium listing on the London Stock Exchange requiring it to apply the rules regarding preliminary announcements, the bond is listed debt and the publication of unaudited accounts for the 30 June deadline was in effect a market announcement. The unaudited accounts were updated prior to publication to include disclosure that the audited accounts may change following the external audit.

The Council intends for the 2017-18 external audit to be concluded by 30 June 2018 in part to resolve this. Management will consider the requirements of the Local Authority Accounts (Scotland) Regulations 2014 in respect of maintaining compliance with this legislation. We will work with management to assess the impact on the accounts preparation timetable and our audit timetable for future years.

In advance of our audit fieldwork we issued a 'prepared by client' request, a list of required analyses and supporting documentation. The standard of the documentation was good and there was evidence of accountability and ownership of working papers across the finance department. Responses to audit queries were answered effectively and on a timely basis on the whole, although there were some delays when the query extended beyond the finance team.

From a number of our audit tests over judgemental areas, or balances requiring estimates, we identified that documentation could be enhanced to better set out management's judgements and calculations.

Recommendation one

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Fraudulent income recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>As set out in our audit strategy document, the only income stream we considered to have a significant risk attached is other income. Other income relates primarily to charges or service income from varying different streams and therefore we consider there to be judgement in recognising this income.</p> <p>There was no change to the planned audit work over income streams which did not contain a significant risk.</p>	<p>As set out in our audit strategy document we considered each source of other income and analysed the potential revenue recognition risk against each of these as follows:</p> <ul style="list-style-type: none"> — Investment property income: we did not rebut the revenue recognition risk as leases may have incentives, ratchets, rent free periods or discounts which could impact the revenue recognition, and may give rise to recognising income in different periods to those it was received. — Other trading operation income: these are non-complex services, such as car parking charges, and therefore income is recognised at the point of provision of service. There is limited judgement required in identifying the period in which income should be recognised and we rebutted the significant risk. — Other services income: services are recharged between directorates and also arms length external organisations. This includes internal reallocations and external charges. Similar to the above, income is recognised at point of service delivery, with limited judgement required over recognition. Therefore the significant risk is rebutted. <p>Following these considerations, the income stream where there is a significant revenue recognition risk is investment property rental income. We performed the following work over this income stream:</p> <ul style="list-style-type: none"> — Proof in total of investment property income based on the number of properties. — Test of detail over a sample of leases to assess whether there are complex clauses/conditions which could impact recognition of revenue. — Journal testing over investment property income. <p style="text-align: right;"><i>Continued...</i></p>	<p>We did not identify exceptions from our testing over investment property rental income. Whilst we did not identify any leases with complex clauses or conditions, we understand that new leases will be entered in to in future years as a result of the completion of Marischal Square, and we will reassess the significant risk over this income stream.</p> <p>We identified an error in how some year-end earmarked reserve transfers were recognised in the comprehensive income and expenditure statement, which resulted in an overstatement of gross income and expenditure of £7.87 million. This error did not have an impact on the net cost of services, and was adjusted. We have recommended enhancements to year-end processes to avoid similar matters in the future.</p> <p style="text-align: right;">Recommendation two</p> <p>We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraudulent income recognition	<p><i>Continued....</i></p> <p>Our audit work over the remaining other income streams included:</p> <ul style="list-style-type: none"> — Analytical reviews of other income at service level compared to prior year and budget. — Test of detail over services other income amounts not already tested. — Cut off testing over all income streams to verify it is recorded in the correct financial year. 	<p>See above</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Re valuation of property, heritage assets, plant and equipment</p> <p>Under the CIPFA Code, and IFRS, property, heritage assets, plant and equipment (“PPE”) is required to be held on the balance sheet at current value (market value or depreciated replacement cost). In order to comply with these accounting requirements, Council assets are subject to rolling valuations, with a tranche of other land and buildings being subject to valuation in 2016-17. Furthermore, the Council holds £86 million of investment property, which must be revalued on an annual basis.</p> <p>The Council carries out a rolling programme that ensures that all PPE required to be measured at fair value is revalued at least every five years by internal valuers.</p>	<p>Our overall approach to auditing valuations of non-current assets was in line with that set out in the audit strategy document:</p> <ul style="list-style-type: none"> — in respect of PPE, review of the in-house valuation team and of the use of other experts; considering their objectivity, independence, experience and integrity; — in respect of heritage assets, discussion of valuation methodology with the curator, sample testing of opening balance valuations to agree to supporting evidence, and research of similar asset values. There was no significant revaluation during the year requiring audit; — consideration of the impairment review undertaken by management and of impairment indicators for the Council’s estate; and — review of material manual journals posted to both the fixed asset and revaluation accounts. <p>In addition, a KPMG valuation expert reviewed the valuation methodology for other land and buildings and investment properties, comparative sales, supporting evidence of rent or land values and yield applied in valuation calculations, including discussion with the estate team to discuss and challenge the methodology.</p> <p>Specific considerations for different categories of assets revalued are set out below.</p> <p><i>Impairment review</i></p> <p>The impairment review is carried out by the Head of Land and Property Assets. Although the Council officers are comfortable there have been no indicators of impairment and our audit work has not identified issues in this regard, there is limited supporting evidence to document that a complete assessment has taken place.</p> <p style="text-align: right;"><i>Continued.....</i></p>	<p>We consider that the revaluation of property, plant and equipment is materially appropriate. We consider that:</p> <ul style="list-style-type: none"> — the methodologies and approach taken by the internal valuers are appropriate and in line with KPMG expectations; and — Valuations are appropriately recognised and disclosed in the financial statements. <p>Overall, we identified that the documentation of valuations and impairment reviews could be enhanced to better set out the work undertaken, the evidence considered, the assumptions made and the final conclusions.</p> <p style="text-align: right;">Recommendation one</p> <p>Specific considerations in relation to different categories of assets are set out below.</p> <p><i>Impairment review</i></p> <p>The impairment review did not identify any assets which should be impaired. We concur with management’s assessment.</p> <p style="text-align: right;"><i>Continued.....</i></p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Revaluation of property, heritage assets, plant and equipment</p>	<p><i>Continued....</i></p> <p><i>Other land and buildings</i></p> <p>A number of assets were valued using the depreciated replacement cost model (“DRC”) method, usually applied as an alternative when no market use value is available. We challenged the application of the DRC method for a number of assets (including Marischal College, His Majesty’s Theatre and the Townhouse). Within DRC we reviewed the assessment of obsolescence, depreciation and modern equivalent area (the area that would be required to replace the use of space in a modern equivalent building) and its application to the valuation.</p> <p><i>Investment property (including Common Good assets)</i></p> <p>Our approach to investment property valuations was similar to that of other land and buildings, and no significant matters arose.</p> <p>Within Common Good, the development at Pinewood is being sold in tranches over a multi-year period. We discussed this specific development with management to understand the accounting treatment and progress. From this work we identified that the sale of tranches of Pinewood had been accounted for as a downwards revaluation instead of a disposal.</p> <p><i>Heritage assets</i></p> <p>In accordance with the CIPFA Code the Council’s internal curator applies valuations of the artwork collection in order to ensure they are appropriate and relevant. We considered with management the approach to previous valuations of heritage assets and viewed the insurance documents for heritage assets, including on loan in Europe, to support the values recognised.</p>	<p><i>Other land and buildings</i></p> <p>We consider that the DRC method was appropriate to use for specific assets due to their specialised nature and appropriate considerations had been included within the calculation of the DRC value.</p> <p><i>Investment properties (including Common Good assets)</i></p> <p>Audit adjustments were raised to recognise the revaluation and subsequent sale of the Common Good assets at Pinewood in the correct account balances.</p> <p><i>Heritage assets</i></p> <p>There were no significant revaluations in the year. Whilst we are content that the previous valuation approach adopted meets the requirements of the CIPFA Code, given the significant value attached to certain pieces of artwork we recommend that management engages an external specialist art valuation expert to further support valuation of its heritage assets.</p> <p style="text-align: right;">Recommendation three</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Accounting for the bond issuance</p> <p>2016 saw the Council become the first Scottish local authority to issue a bond for capital financing. The £370 million bond attracted a premium of £41 million.</p> <p>The accounting for the bond issuance is complex, involving the calculation of the effective interest rate, which is based on future cash flows. This is the first year the Council has prepared the relevant accounting entries.</p> <p>Interest accrues on the principal amount at 0.1% from the date of issuance. However there is a three year repayment holiday, whereby no principal amounts need to be repaid until February 2020.</p> <p>The bond is index linked to RPI, therefore the principal amount increases in line with inflation at each repayment date, which in turn impacts the interest payable.</p> <p>The £41 million premium is deferred on the balance sheet of the Council, to be released to income over the 38 year life of the bond.</p>	<p>The unaudited amounts made available by management on 12 June 2017 did not include all elements of the required accounting treatment for the bond. Since receiving initial calculations from them in May 2017 we have worked with management to finalise the appropriate accounting and disclosure in the accounts which were provided on 7 September 2017.</p> <p>Our audit approach, included:</p> <ul style="list-style-type: none"> — selecting a sample of transactions and agreeing the cash received and documents issued; — selecting a sample of related issuance expenditure and agreeing to supporting documentation to ensure it was appropriate to include as a transaction cost; — considering the accounting treatment and disclosures against the IFRS 9 and IAS 39 requirements, including accounting for the premium; — reviewing the Council's current credit rating and any impact on the bond repayment schedule; and — performing sensitivity analysis to assess what impact a change in the variable factors (for example RPI used to calculate the effective interest rate) could have on the credit rating and bond value. <p>The key elements where we provided challenge to management are:</p> <ul style="list-style-type: none"> — Bond issuance transaction costs were initially capitalised within PPE. Per IAS 39, transaction costs which are directly attributable to the origination of a financial liability (i.e. those which would not have been incurred if the bond had not been issued) are deducted from the amount of the liability initially recognised. Prior to the draft financial statements being published, management made an adjustment to remove the transaction costs from property, plant and equipment and deduct from the bond liability. We reviewed the costs included in transaction costs and agreed with management's conclusion that all were eligible transaction costs. <p style="text-align: right;"><i>Continued....</i></p>	<p>We consider that the recognition of the bond and premium on the balance sheet as at 31 March 2017 is materially correct, based on the underlying principal amount and effective interest charged to date.</p> <p>We consider that using 3.5% as the forecast RPI for calculating the effective interest rate is within an acceptable range and results in a materially appropriate interest charge for 2016-17.</p> <p>Audit adjustments were raised to correctly account for the effective interest rate and premium amortisation.</p> <p>For future complex financial transactions we recommend that management considers the accounting implications prior to the transaction taking place, and provide an accounting paper before the year end, to ensure these transactions can be agreed and incorporated into the draft financial statements.</p> <p style="text-align: right;">Recommendation four</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Accounting for the bond issuance</p> <p><i>Continued....</i></p> <p>IFRS requires that interest payments are charged to the comprehensive income and expenditure account on a consistent basis over the life of the bond, rather than in line with the actual cash payments. An effective interest rate has to be calculated, which takes into account of the initial capital repayment holiday. The calculation of the effective interest rate is further complicated by the requirement to make an assumption of RPI to calculate the expected indexation on the principal and therefore the impact on the interest payments.</p>	<p><i>Continued....</i></p> <ul style="list-style-type: none"> — The effective interest rate calculation involves a detailed understanding of the terms and conditions of the bond trust deed, in particular around the calculation of interest and principal instalment payments which are based on a limited indexation factor and limited index ratio. The calculation also includes the amortisation of the premium. No effective interest rate calculation had been completed at the date the unaudited accounts were made available and an audit adjustment was identified to correctly recognise the in-year effective interest and premium amortisation. The in-year charge is £3.8 million which is significantly greater than the cash cost. For 2017-18, the charge is forecast to be £11.3 million; management should include a pro-rata of these charges within the quarterly reports. — The limited indexation factor is the forecast RPI movement for each instalment date. Management chose to use 3.5% on the basis of known movements to date and consideration of other RPI assumptions, for example the RPI assumption of 3.4% used within the pension liability calculation. — The CIPFA Code permits management a choice over whether to expense borrowing costs in respect of qualifying assets. The Council is not permitted to borrow for specific assets and therefore has elected to expense borrowing costs. For 2016-17 management elected to transfer funds from the capital reserve to the general fund to offset the effective interest rate charge. Management is considering the impact of the effective interest rate charge in future years. <p><i>Continued...</i></p>	<p>See above</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Accounting for the bond issuance</p>	<p><i>Continued....</i></p> <ul style="list-style-type: none"> — In February 2017, the first instalment of interest was payable. Also that was the first point in time when indexation of the bond would occur. Indexation of £2.1 million was recognised. Management deducted the indexation from the bond premium, however IFRS requires such indexation to be charged to the comprehensive income and expenditure statement. An audit adjustment was raised to appropriately account for this transaction, coupled with the adjustments required to recognise the correct effective interest rate charge. — The fair value of the bond and premium is disclosed within the accounts. The fair value is provided by Capita. 	<p>See above</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefits</p> <p>The Council accounts for its participation in the North East Scotland Pension Fund and in accordance with IAS 19 <i>Retirement benefits</i>, using information obtained in a valuation report prepared by actuarial consultants.</p> <p>Actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p> <p>The Council also accounts for the discretionary post retirement benefits on early retirement in the Scottish Teachers Superannuation Scheme as a defined benefit scheme. Liabilities are recognised when awards are made and there are no plan assets.</p>	<p>As set out in our audit strategy document, our work consisted of:</p> <ul style="list-style-type: none"> — review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks; — review by KPMG specialists of the roll forward of scheme assets and liabilities and the impact on the value of assets of different calculation methodologies; — testing of the level of contributions used by the actuary to those actually paid during the year; — agreement of membership data used by the actuary to data from the Council; and — agreeing actuarial reports to financial statement disclosures. <p>We noted that management chose to use a bespoke assumption for salary growth instead of using the generic assumption provided by the actuary. We considered the assumption with management, and agree with its assertion that it better reflects current public sector pay restraint as it has a level of local influence on pay decisions.</p> <p>A bespoke assumption for salary growth was not used for STSS. Management considers this to be appropriate because teacher salaries are set at a national level with limited local influence. The audit team consulted with KPMG actuarial specialists, and agreed that management's assumptions for both pension schemes are appropriate.</p>	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> — is correctly recognised on the balance sheet as at 31 March 2017; — has been accounted for and disclosed correctly in line with IAS 19 Retirement benefits; and — assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. <p>We set out further information in respect of the defined benefit obligation on pages 53 and 54. The net liability in the balance sheet decreased by £1.3 million compared to 31 March 2016, driven by an decrease in the North East Scotland Pension Fund of £3 million and an increase in the Scottish Teachers Superannuation Scheme of £1.6 million.</p>

Financial statements and accounting

Significant risks (continued)



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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Capital expenditure</p> <p>The Council has a £1 billion capital plan for the next five years, which is focused around the city centre masterplan.</p> <p>The Council is utilising some innovative methods of delivery of capital projects, including the use of a 'development strip lease' basis for Marischal Square and further PPP agreements for the Aberdeen Western Peripheral Route. These can lead to various accounting treatments in the financial statements.</p> <p>Due to the significance of this capital investment programme and inherent risk of delivering it in line with budget, we consider this to be a significant risk for our audit work to ensure the classification of costs between operating and capital expenditure is appropriate. We also consider that large capital projects inherently bring a fraud risk.</p>	<p>As set out in our audit strategy document, we completed the following work:</p> <ul style="list-style-type: none"> — reviewed the capital plan and discussed its monitoring by teams across the Council; — understood the processes to ensure the appropriate recording of capital and other expenditure in the financial records and that authorisation by appropriate individuals has occurred; — selected a sample of capital item additions to agree to invoice to verify appropriateness of classification of items between revenue expenditure and capital expenditure; — tested reallocation of assets under the course of construction to fixed asset categories at the period end to confirm appropriate categorisation; — through our expenditure testing, agreed a sample of invoice to verify the appropriateness of the items as expenditure; — reviewed material manual journals posted to both the fixed asset and expense accounts; and — reviewed project approval through procurement testing and inspecting CMT minutes. <p>From our understanding of the capital plan, the innovative methods of delivery referred to have not yet begun, and therefore no further detailed testing was completed. These are expected to impact the financial statements from 2017-18.</p> <p>Specific consideration was given to the accounting treatment for the Aberdeen Western Peripheral Route, whereby the first section had achieved 'permitted for use' status. As this section of the road is considered a trunk road, it falls under the responsibility of Transport Scotland. It was therefore appropriate that this section of road continued to be held as an asset under construction; following detrunking in April 2017, the asset will be moved to operational assets.</p>	<p>Our testing found capital expenditure to be accurate and appropriately classified.</p> <p>We note that there are a number of large ongoing capital projects at the Council, of which there is a range of different types of expenditure. We identified that it was not always easy to reconcile the amounts capitalised to the records held, and record keeping can be improved. Whilst management is aware of the complexities of capital project management, we recommend that reconciliation and record keeping is enhanced.</p> <p style="text-align: right;">Recommendation one</p>

Financial statements and accounting

Other focus areas



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OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Presentation of the financial statements – ‘telling the story’</p> <p>New disclosure requirements and restatement requires compliance with relevant guidance and correct application of applicable Accounting Standards. Though less likely to give rise to a material error in the financial statements, this is a material disclosure change in this year’s financial statements, worthy of audit understanding.</p>	<p>Our audit work consisted of;</p> <ul style="list-style-type: none"> — assessing how the Council has actioned the revised disclosure requirements for the CIES, MIRS and the new Expenditure and Funding Analysis (“EFA”) as required by the CIPFA Code; and — checking the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. 	<p>The presentation of the CIES is in line with the Council’s internal reporting structures, as required by the CIPFA Code. The restated 2015-16 numbers agreed to the underlying accounting records and had been appropriately disclosed.</p> <p>The EFA had been presented in line with the CIPFA Code and was included as a primary financial statement.</p> <p>We are satisfied that the CIES and EFA are appropriately presented.</p>
<p>Consolidation of the IJB</p> <p>The IJB was established in 2015-16, and assumed full delegated functions from 1 April 2016. The consolidation of this entity will have a material impact on the 2016-17 financial statements. There will be a number of intra group transactions to be recognised.</p> <p>The Council will also have shared risk over the IJB with NHS Grampian, as well as obligations for delivery of services as directed by the IJB. Strong monitoring and reporting will be required within the Council to ensure all statutory requirements are met and risk is managed at an appropriate level.</p>	<p>Our audit work involved consideration of the appropriate accounting for the treatment of transactions with the IJB in the Council-only accounts and the way in which the IJB is consolidated into the group accounts.</p>	<p>An audit adjustment was identified over the accounting treatment for the IJB on the Council’s balance sheet. Management had initially recognised a long term investment equivalent to the Council’s share of the net assets of the IJB as at 31 March 2017. As the Council has not invested cash into the IJB, it is not appropriate to recognise an investment.</p> <p>It was identified that transactions with the IJB had not been correctly recorded in line with LASAAC guidance on accounting for IJBs, which resulted in gross expenditure and income being understated on the CIES. This had no impact on the net cost of services.</p> <p>Both of these errors were amended by the Council. We are satisfied that the IJB has been correctly accounted for in the group accounts.</p>

Financial statements and accounting

Management reporting in financial statements



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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Management commentary</p>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report.</p>
<p>Our view of Alternative Performance Measure (“APM”) presentation</p>	<p>As an EU Public Interest Entity (“PIE”), we are required to provide a view on the APMs that the Council uses in its management commentary. APMs are those amounts presented which do not directly appear in the financial statements themselves.</p> <p>The local government finance circular 5/2015 provides clear guidance to Councils on the type of information to be included within the management commentary. Furthermore, the changes to the CIPFA Code to include an expenditure and financing analysis, provides a requirement for a reconciliation from the Council’s internal management reporting to the statutory position.</p> <p>The key performance measure which users of the accounts consider is the achievement of over or under spends against budget. An appropriate reconciliation from the £3 million underspend against budget to the statutory position presented in the comprehensive income and expenditure account is provided in the management commentary. This reconciliation does not give undue prominence to an adjusted measure.</p> <p>Following the bond issuance, the Council will now have additional users of the accounts, for example investors. Management will need to consider whether to enhance the content of its management commentary to provide additional financial performance measures that will inform investors of its financial position relative to their interest in the Council’s bond.</p>	<p>We consider the presentation of alternative performance measures in the management commentary to be appropriate in the context of the Council’s accounts.</p>

Financial statements and accounting

Management reporting in financial statements



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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Remuneration report	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> <p>We challenged management on the disclosure of two persons who held senior positions at the Council and received remuneration through an agency appointment. For greater transparency, management was content to enhance the disclosure. Amendments were also required to the disclosure of the remuneration senior staff of the Council's subsidiary bodies.</p> <p>It was identified that a number of Councillors had incurred high levels of expenses as a result of overseas trips. Whilst all trips and expenditure had been approved by a committee and were appropriately reported, we understand that in autumn 2017 management will implement a requirement for greater benefit reporting for overseas trips.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
Annual governance statement	<p>The statement for 2016-17 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.</p>

Financial statements and accounting

Group financial statements



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Our audit appointment of the Council extends to the audit of the Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board. Appendix nine sets out the group structure. The table below sets out the key audit findings from these entities and also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities. We note that the Council has created a new partnership with Places for People, Shaping Aberdeen Housing LLP, to deliver 1,000 affordable homes. There were no transactions in 2016-17, however management will need to consider the accounting and audit implications for this new entity in future years.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	<p>We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 2% of total assets. There were no audit adjustments required to the draft accounts which impacted on the net assets and income and expenditure for the year. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.</p> <p>The Office of the Scottish Charity Register approved an application to reorganise the Bridge of Dee Trust. In 2017-18 the assets of this Trust will be transferred to the Bridge of Don Trust and used for the advancement of heritage. The Education Endowment Investment Fund is made up of 60 smaller trusts and the ultimate aim is to have these trusts amalgamated into two trusts that specialise in educational bursaries and disabilities in the community, this will be carried out over the next few years.</p>	We anticipate issuing an unqualified audit opinion on the charitable trusts.
Common Good	Aberdeen City Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets. Our findings in relation to the valuation of investment properties across the Council and Common Good are reported on pages 18 and 19.	The Common Good amounts are included within the Group financial statements, for which we intend to issue an unqualified opinion.
IJB	A separate annual audit report is presented to the audit and performance systems committee of the Aberdeen City Integration Joint Board. No significant exceptions were identified during the audit	We issued an unqualified audit opinion on the IJB on 12 September 2017.
Bon Accord entities	As set out in our audit strategy document, we provided group audit instructions to the component auditor of Bon Accord Care Limited and Bon Accord Support Services Limited (together the Bon Accord entities). Formal reporting from the component auditor has been provided and [...no] audit adjustments were raised. There were no significant findings that we would be required to report.	Component auditors intend to issue an unqualified audit opinion on the Bon Accord entities. There are no matters to report which would impact the group accounts.

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Financial statements and accounting

Qualitative aspects

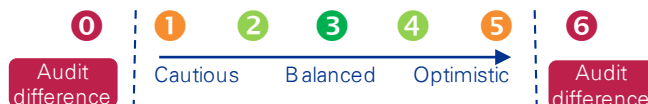


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ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code. We considered the level of prudence within key judgements in your 2016-17 financial statements and accounting estimates. We set out our view below:

Subjective areas	2016-17	Commentary
Bad debt provisions (excluding Council tax) <i>£20.4 million</i>	6	For debtor balances greater than 120 days overdue, but under 10 years overdue, a bad debt provision of 40% is recognised. We consider that this is at the optimistic end of an acceptable range as it is unlikely that significant debts over a year old will be collected and recommend that management reviews its debtor provisioning levels. Following discussions with management, the bad debt provisioning was amended to provide for a larger proportion of older debts. An audit adjustment was raised to increase the bad debt provision by £3.0 million. This was corrected by management and we agree that the updated provisioning is more balanced. See recommendation five.
Council tax bad debt provisions <i>£34.6 million</i>	3	Whilst we consider the methodology for calculating the council tax bad debt provision is overly complex, we do not consider it leads to an overly cautious or optimistic estimate. There was a £1.5 million increase in the council tax bad debt provision from previous years, and collection rates have remained stable. See recommendation five.
Other provisions and contingent liabilities <i>£4.9 million</i>	4	The Council recognises a number of specific provisions and contingent liabilities, relating to matters such as holiday pay, equal pay and ongoing legal matters. Individually, and in aggregate, these provisions are not considered material, although management tends to take an optimistic approach to calculating these provisions. Legal letters support management's estimates.
Pension assumptions <i>Liability: £250 million</i>	4	For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Mercers, using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate, as discussed on page 23.
Property, plant and equipment revaluations <i>£43 million decrease</i>	3	Our findings over the valuation of PPE is discussed on pages 18 and 19. We did not identify any indications of management bias and consider that the valuations are balanced in the round.
RPI assumptions built in to effective interest rate on the bond <i>3.5% RPI assumption</i>	2	Management has chosen an RPI assumption of 3.5% to include within the bond effective interest rate calculation, which is in line with other similar RPI assumptions included in estimates within the financial statements, for example, within the pension assumptions. RPI of 3.5% is in line with publically available forecasts.

Level of prudence



Financial statements and accounting

Future developments



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Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the CIPFA Code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018-19*, has been issued as a companion publication to the CIPFA Code setting out the approach to these two standards.

Other changes to the 2017 CIPFA Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the narrative report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting.

IFRS 16 *Leases* will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard. It is expected that this standard will be incorporated in to the 2019-20 CIPFA Code.

Wider scope and Best Value

Introduction



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Audit dimensions introduction

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in the five year period. The BVAR report for the Council is planned for later in the five year programme.

The Best Value audit work integrated into our audit in 2016-17 focused on two of the seven areas: financial and service planning and financial governance and resource management. The findings of this work are reported on pages 32-44.

Strategic Audit Priorities

The Accounts Commission agreed five Strategic Audit Priorities:

- the clarity of Council priorities and quality long-term planning to achieve these;
- the effectiveness of councils in evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider audit dimension work over our five year appointment.

Our approach

We performed a range of procedures to inform our work over best value;

- interviews with senior officers including the Chief Executive, the Policy, Performance and Parliamentary Liaison Manager and the Head of Finance;
- review of various committee papers and reports;
- attending committee meetings
- discussion with officers throughout the Council; and
- consideration of Audit Scotland guidance to draw conclusions on good practice.

Wider scope and Best Value

Audit dimensions conclusions



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Financial sustainability

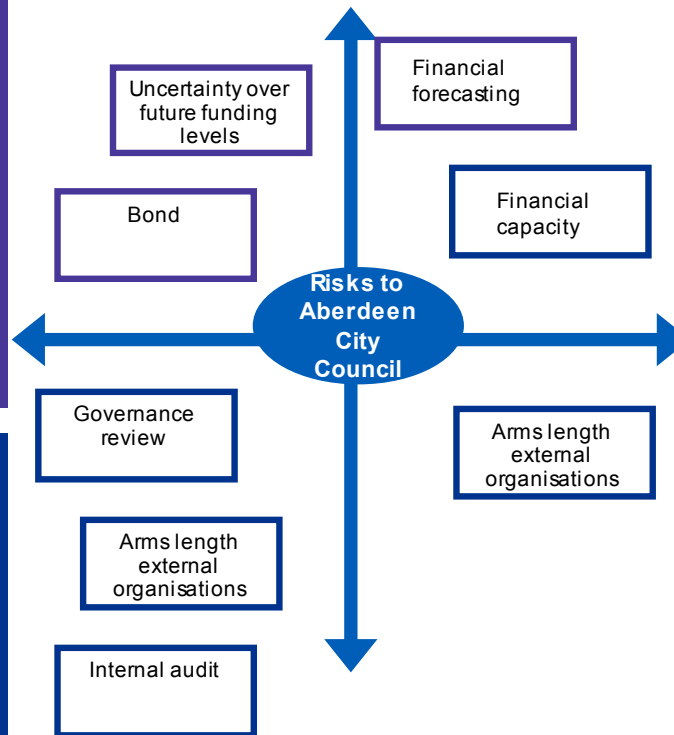
The Council approved savings proposals (£129 million) over the next five years in order to continue to provide services which meet demand (page 11).

In addition the transformation programme will support achievement of these savings and strengthen the Council's capital management through redesigning the way services are delivered to maximise efficiencies and support change.

Savings required for 2017-18 appear to be on track to be delivered, and from evidence of action taken in previous years, management demonstrates strong budgetary control and the ability to take effective action to address financial sustainability.

Governance and transparency

Management has demonstrated a commitment to achieving best practice in its governance arrangements. There is evidence of a good pace and depth of change since the implementation of the governance review, although we note not all actions have been able to be delivered on time. We consider that embedding the changes in to the Council will support management in achieving best practice, and we have seen a number of areas which already meet best practice.



Financial management

During budget setting there is ongoing consultation with members, service users and other key stakeholders. This results in an open and transparent budget setting process and supports effective financial management.

We consider that the Council has strong financial management.

Value for money

We consider that the Council has appropriate arrangements for complying with "Following the public pound".

Options appraisals and business cases processes have developed over the year, with value for money considerations being evident.

There are a number of areas of partnership working with other public sector entities and there is clear evidence of a commitment from management for continuous improvement.

Wider scope and Best Value

Financial sustainability



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Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Service redesign and transformation

The Council has a long term goal to become self-sufficient and has made significant progress such as by seeking alternative forms of commercial funding by issuing a bond on the London Stock Exchange. However, there are significant identified financial pressures of £125 million until 2023 as shown in the table below. The Council has launched its transformation programme to bridge this gap and specific plans have been reported to the Council through the target operational model proposal that is directing service redesign.

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Gross expenditure	683,653	699,324	714,513	728,595	741,741
Gross income	(226,754)	(227,321)	(227,887)	(228,454)	(229,020)
External funding	(421,459)	(411,899)	(405,721)	(402,622)	(402,400)
Net deficit	35,440	60,104	80,905	97,519	110,321
Transformation investment	7,000	8,000	-	-	15,000
Use of reserves	(7,000)	(8,000)	-	-	-
Potential deficit	35,440	60,104	80,905	97,519	125,321

The new 'Target Operating Model' was approved in August 2017 and the creation of the Strategic Transformation Committee will direct the planned £129 million of savings over the next five years. A part of this will be through the voluntary redundancy programme launched at the end of 2016-17 with savings of over £20 million expected.

There are five programmes of work that have been established regarding transformation. These programmes are overseen by a programme board, and during 2016-17 a Transformation Delivery Board was established as the key governance group overseeing the whole portfolio of transformation work. The five areas are:

- stewardship: focused with bond governance;
- governance review;
- operational excellence: "true transformation", considering service redesign include the large scale employee voluntary redundancy programme;
- Enterprise Council Board: commercial income, contract management, shared services and increasing economies of scale; and
- digital transformation.

At this stage it is too early to assess the projects involving redesign or services. The Transformation Delivery Board will monitor progress throughout the year and report back to Council.

For 2017-18 service options totalling £31.9 million were presented to members in setting the budget, and a total of £22.4 million of savings proposals were approved to address a £17.2 million deficit. As at June 2017 the Council was forecasting a £0.5 million deficit, however a working group is carrying out a strategic review to ensure this is balanced for year end.

Wider scope and Best Value

Financial sustainability (continued)



DRAFT

Financial planning

As part of obtaining a credit rating to be listed on the London Stock Exchange, the Council prepared a high level 35 year financial plan to aid forecasting and demonstrate the Council's ability to pay the debt finance.

This has been built into the budget setting and monitoring process in the short term demonstrates strong financial management. Members are involved in the budget-setting process from the first stage of service planning through to full budget approval. Management and members receive good quality revenue and capital monitoring reports and these receive appropriate scrutiny at the council management team and finance, policy and resources committee meetings.

The budgeting team has detailed financial projections for the five year period. These are built on a number of assumptions, including demographic projections for the city, pay awards, expected Scottish Government funding, income projections, Council Tax and NDR. All projections are approved by CMT and reviewed each year.

Treasury management and investment

The decision to use the bond issuance as capital financing was overseen and approved by the finance, policy and resources committee, and due to the significance of the transaction an options appraisal was carried out. This concluded that the bond financing offered the best value for money due to the initial cash injection whilst providing a three year repayment holiday before capital projects are complete and generate revenue to finance the debt on a suitable basis. The Council has an appropriate policy for treasury management and investment decisions, this is scrutinised at Council meetings and the policy gives Committee oversight of the temporary investments held to fund the capital programme.

With the issuance of the Bond, there has been additional scrutiny required of the Council's financial position. However, as noted, with the new financial reporting process and the ongoing bond governance project we do not consider the level of borrowing required to pose a financial sustainability.

Asset management

A number of ongoing capital projects had been highlighted by management as not having had the appropriate approvals or monitoring during their lifecycle; these included the Third Don Crossing, the Treasure Hub and Berryden Corridor.

Capital planning has therefore been an area of focus for the Council during 2016-17, with health-checks having been performed on key projects and a new governance framework for programme and project management having been approved by ARSC in June 2017.

New arrangements identified include:

- Formation of the Strategic Asset and Capital Board ("SACB").
- Implementing the capital governance review action plan.
- Formation of the members reference group for monthly review of the capital programme.
- programme boards will take responsibility for scrutiny and challenge of their own area projects, while the SACB will review projects on exception.

This is against the backdrop of the £1 billion capital plan and recognising change to the current practices was required. We noted that a number of large projects have fallen behind partly due to developing programme management but we recognise the pace with which this is being rectified.

Wider scope and Best Value

Financial sustainability (continued)



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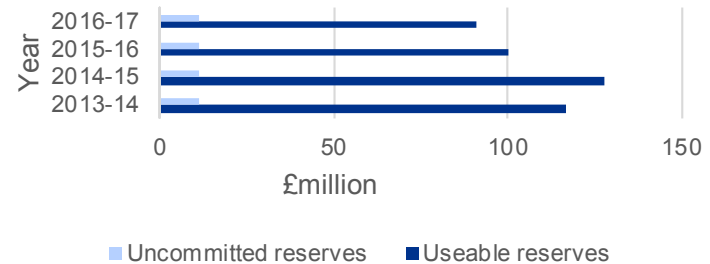
Reserves

The table below shows total useable reserves have decreased in recent years as planned, primarily due to major capital expenditure using capital funds, while unallocated reserves have remained constant at £11.3 million, demonstrating strong financial management. This has been aided by using earmarked reserves to reduce the impact of unforeseen financial pressures. Within earmarked reserves the Council has a risk fund of £8.4 million to mitigate any short term risks that may arise and impact operational funding.

However, the unallocated reserves accounts for 1% of annual expenditure and there is a risk that the Council does not have the reserves to cover the savings required for the next five years.

£22.4 million of savings proposals have been approved for 2017-18. Quarterly reporting for 2017-18 to date indicates that the Council is on track to meet its approved budget. However if there was a time lag in savings proposals being realised, uncommitted reserves would provide short term cover for up to 50% of these efficiencies. As noted, the Council is reactive to responding to budgeting pressures through the year and aim to action savings to achieve the budgeted year end position.

Useable reserves



Conclusion

The Council has approved savings proposals (£129 million) over the next five years in order to continue to provide services to meet demand (page 11).

In addition the transformation programme will support achievement of these savings and strengthen the Council's capital management through redesigning the way services are delivered to maximise efficiencies and support change.

Savings required for 2017-18 appear to be on track to be delivered, and from evidence of actions taken in previous years, management demonstrates strong budgetary control and the ability to take effective action to address financial sustainability.

Wider scope and Best Value

Financial management



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Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial capacity

The section 95 officer is appointed by the finance, policy and resources committee and is the Head of Finance. This position has appropriate status within the Council and access to the Chief Executive and the Council members. The finance function has decreased in size over the past few years, in line with the general reduction in the Council's scale.

We note that the finance team has been recognised by award of 'Finance Team of the Year', and the Head of Finance received 'Public Finance Professional of the Year' by CIPFA and also the 'Emerging Director of the Year' by the Scottish Accountancy and Finance Awards.

These awards demonstrate the Council's innovative culture and long term goal to become self sufficient. There are no concerns raised over the financial capacity to produce the annual accounts and the new CIPFA accounts production tool should help the team become more efficient.

Financial position and governance

The Council managed the 2016-17 outturn against budget during the year effectively, recognising efficiencies had to be found in the last quarter when presented with a forecast deficit. This resulted in £3 million surplus against budget for the year end position.

There are sufficient reserves to support future operations – reserves are discussed above. The Council has forecast a funding gap of £125 million over the next five years, but has identified saving opportunities to mitigate the gap. We provide further commentary on the financial position on pages six to 11.

As a result of the May 2017 elections new finance training for members was developed and is being delivered over the summer of 2017. This was recognised as an area of required improvement as previously no mandatory training was required or recorded. The training is facilitated by the Head of Finance and Finance Managers, demonstrating the Council's commitment to the importance of the sessions. The wider scope of budget setting includes consultations with third tier staff via a platform to encourage involvement from all aspects and inspire new proposals or identify efficiencies. Discussions with other councils are had to share budgeting ideas. The consultations process also highlights new or expected budget pressure points.

Budget consultation with members and services

All Councillors are informed of the budget proceedings as part of their induction. Procurement training was included within this and our testing found that all sampled capital projects were appropriately tendered for and approved by Committee.

Ownership of meeting budget shortfalls is with heads of service, not with finance. Directors are challenged to be more strategic, passing more responsibility for short-term financial planning to heads of service. This supports service redesign planning.

Consultation of service users in budget setting

The level of consultation in which the Council engages with the local population varies year-to-year, and is mainly carried out by members rather than officers. With local elections taking place in 2017 we understand that there was little consultation as part of the 2017-18 budget-setting cycle.

Wider scope and Best Value Financial management (continued)



DRAFT

Increased consultation is a high priority for the Council, albeit recognising that there is a need for this to be effective.

The Council has an online consultation portal called Customer Space and also offers members of the public the chance to participate in the City Voice panel, which is consulted three times a year.

Workforce planning

Over the last five years the workforce of the Council has decreased. The Council has initiated a voluntary redundancy scheme in 2016-17 with 150 applications being received. Severance packages will be awarded in 2017-18 and this is planned to continue for 3 years.

Typically hard to fill posts are in relation to teachers, particularly in rural areas. The Council has developed a range of incentives such as relocation packages, providing affordable housing and retention incentives. Management recognise the challenges associated with attracting social care professionals to the city. Having heard innovative ideas from Councils in England, consideration is being given to a social work academy to train local residents. With the downturn in the oil and gas industry the Council has benefited from seeing a higher rise in applications for professional services type jobs, for example finance.

Sickness absence continues to be an issue for the Council, although developments in this area has seen the average days being reduced to just over 10, down from 14.8 days ten years ago. The maximising attendance policy is being reviewed by internal audit and there a number of measures implemented through workforce planning.

Quarterly reporting - continuous improvement

The Council is changing to quarterly reporting for 2017-18 to comply with bond governance and improve its financial reporting as well as reduce the administration burden on monthly reporting.

The first Q1 report went to Committee on 23 August 2017. This comprised of a full set of financial statements with management commentary and additional notes to explain the financial position. In addition there is a projection reported for rest of the year, including the Common Good, and a summary of ongoing capital works.

This also supports the faster close down period expected for 2017-18 year end, and the Council is piloting an automatic accounts production software purchased in alliance with CIPFA.

This meets the requirements for the Council to report its financial position on a quarterly basis to the London Stock Exchange and ensure monitoring of maintaining the credit rating is publically available. The Council should continue to seek assurances that reporting is appropriate and providing the relevant information in the first year of this process.

Conclusion

During budget setting there is ongoing consultation with members, service users and other key stakeholders. This results in an open and transparent budget setting process and supports effective financial management.

Wider scope and Best Value

Governance and transparency



DRAFT

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Governance structure

The Council is carrying out an extensive governance review which led on from a review of the existing governance arrangements and whether they were sufficient to ensure that the Council remains compliant with all matters pertaining to the bond issuance. During our audit we met with the Head of Legal and Democratic Services and the Governance Review Programme Manager to understand progress of the programme.

The enhancement of governance at committee level has been a focus area for the Council throughout 2016-17. A range of projects are being undertaken to enhance governance structures, the quality of committee reporting and the Council's risk management. We further explain in the box opposite.

While the Council largely demonstrates effective scrutiny, challenge and transparency on decision-making there have been two high profile governance weaknesses that were brought under scrutiny in 2016-17. These were in respect of the approval process of a cycle path repair in 2016-17 and the approval process for photovoltaic panels in a prior year. The former is subject to a Council investigation and the latter was reviewed by internal audit to, in part, identify lessons to learn.

These have demonstrated the need for attention in this area, but the scale and pace with which the Council has developed the governance review shows the Council's commitment to sound governance.

We consider that the governance arrangements in place during 2016-17 were appropriately formed, although we welcome the far reaching review.

The Standing Orders are also going through a further refresh to take into account new co-leadership arrangements.

Governance review – continuous improvement

There were a number of drivers for the governance review including the bond issuance, the desire for further clarity in committee reporting and previous Best Value reports. The governance portfolio sits within the transformation programme since strong governance is necessary in the success of delivering transformation and ensuring the Council maintains its credit rating for the bond. One key aim is to ensure a 'golden thread' through all strategies and policy documents.

The Council sought external expertise to support its development, including the Good Governance Institute's review of risk management and CIPFA's interim assessment of governance arrangements prior to a full assessment against the Mark of Excellence.

A number of initiatives and changes were made. Below are examples and comments on their progress:

- Officers' interests were not being appropriately captured under the Council's existing processes and a new process was determined in January 2017 to recognise the need for transparency in this area. The audit team noted that whilst this was actioned in May 2017, a number of responses are not yet complete which highlights delays in implementation.*
- Standing Orders were refreshed in March 2017, and will now be updated to take account of the new co-leadership arrangements.*
- A review of the effectiveness of internal audit has been completed.*
- The review of ALEOs governance is complete and an options appraisal was presented to the ARSC in June 2017.*
- The risk management framework being updated including risk register format and the completion of an assurance map to identify possible assurance gaps.*

The newly created Governance Board has responsibility for monitoring progress against the agreed actions.

Wider scope and Best Value

Governance and transparency (continued)



DRAFT

Risk management

The Council carried out a review of the system of risk management during 2016 and at its conclusion, agreed an action plan to take forward a number of actions to improve the system (which are incorporated within the governance review). Notable amongst these actions were improving the risk identification mechanisms, strengthening the level of assurance the Council's senior management can take in the effectiveness of risk controls and mitigation and the agreement of a risk appetite for the Council, to inform risk assessment and escalation between tiers of risk management.

Of the 14 actions, two had been completed by the end of June 2017, one was rated 'red', two 'amber' and nine 'green'. The 'red' rated action related to standardising the risk register, recording system and methodology across the Council.

In forming our views on risk management, we met with the Council's risk manager, inspected risk registers and reviewed progress against the action plan.

Whilst not all actions have yet been completed progress being made demonstrates the scale of change being implemented at a pace in line with that of the wider governance review being undertaken. Completion of the remaining actions and embedding the new risk management practises in to the Council should lead to best practice in this area. The updated risks registers presented to the ARSC are in line with best practice we see across the local government and other public sectors.

Fraud

No material frauds were identified during the year. Fraud arrangements include a separate corporate investigation team within the corporate governance directorate (from 2017-18 onwards), policies and codes of conduct for staff and board members, supported by a Policy and Strategic Response to Fraud, Bribery and Corruption.

Having met with the corporate investigation team to discuss ongoing investigations and reviewing related policies and code of conducts, we consider these to be appropriate for the Council.

National Fraud Initiative ("NFI")

The NFI is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches. The Council's participation in the NFI is led by its corporate investigation team.

We submitted a return to Audit Scotland in June 2017, assessing management's participation in the NFI against Audit Scotland criteria.

The Council took part in CIPFA's NFI benchmarking exercise for the first time during 2016-17 and the results of this are being used by the Council to help shape its fraud response.

Overall the arrangements were satisfactory and overall engagement with NFI is good. We noted one area for improvement to achieve best practice in relation to reporting on the effectiveness of recovery efforts.

Recommendation six

Wider scope and Best Value

Governance and transparency (continued)



DRAFT

Leadership

There is evidence of strong leadership within the Council, although it is noted that there are changes in personnel in senior leadership positions. The target operating model should enable greater stability of such positions in future years.

Following the local elections in May 2017, a conservative/labour, independent coalition became the administration of the Council, with a majority of one giving rise to a finely balanced position in decision making. The Council has chosen to follow a co-leadership model, which is requiring the standing orders and a number of policy documents to be updated to allow such arrangements to work.

An administration councillor for the Rosemount and Midstocket ward is also a member of the Scottish Parliament.

We evidenced that due to a desire for paperless working, during committee meetings, amendments to proposed recommendations are circulated via email to Councillors and officers. There is a potential risk of diminished transparency as those without internet access or on the Council mailing lists do not receive these documents.

Local Area Network (“LAN”) and local scrutiny plan (“LSP”)

In forming our risk assessment for the wider scope areas and Best Value audit work, we considered the LSP and outcomes from the LAN.

The 2016-17 LSP did not identify any specific additional scrutiny, although scrutiny activity was undertaken as a consequence of national follow-up work or at the direction of Scottish Ministers and there was planned risk-based national driven scrutiny.

For 2017-18 there was no additional scrutiny required by external audit. Whilst there were positive views of the Health and Social Care Partnership and the progress being made, scrutiny partners will continue to monitor progress against the issued action plans. Thematic scrutiny will also be undertaken in relation to the accuracy of data on gas safety and homelessness.

Performance management

The Council has responsibility, under its Best Value duty, to report performance to the public. The Council participates in the Local Government Benchmarking Framework (“LGBF”) and supported by Audit Scotland, they are using this to improve their approach to public performance reporting.

A revised performance management framework (“PMF”), incorporating a standard reporting template, was agreed by the corporate management team and subsequently implemented across services. The PMF will continue to be enhanced during 2017-18 through the performance, risk and improvement board which reports to the change delivery board.

As auditors we have integrated this into our risk assessment and will be addressed in more depth in the year of the Best Value Assurance Report.

Wider scope and Best Value

Governance and transparency (continued)



DRAFT

Internal controls

Council officers are responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the annual accounts. Our testing of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. A review of the controls testing by KPMG as reported in our interim management report are shown opposite. We did not note requirements for improvements in controls tested.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work.

We note that there was a website homepage breach during 2016-17, however no confidential data was lost and an internal investigation was instigated immediately. We do not consider this impacts our work over IT systems and demonstrates the pace at which management is able to react to emerging issues.

Arms length external organisations (“ALEOs”) governance

The Council has a number of ALEOs that are subsidiaries and that deliver services on behalf of the Council. Refreshed governance arrangements were presented to the audit, risk and scrutiny committee in June 2017. The options appraisal, which was well laid out with supporting arguments and an appropriate level of detail for decision makers is considered to be good practice and demonstrated management’s commitment to enhancing the governance arrangements.

Control tested	Effective
Bank reconciliations: three months bank reconciliations were tested for each bank account.	✓
Budget monitoring: three monthly reports were considered to confirm a sufficient level of detail was presented to and considered by the CMT.	✓
Payroll controls: starters, leavers and amendments tested to ensure changes to payroll data was appropriately authorised.	✓
Expenditure controls: A sample of 40 purchase orders were tested and agreed to invoice. Procurement testing covered a sample of 25 contracts. These were checked to verify they had followed the correct tender route based on value. The tender evaluation was also considered for Best Value. For capital expenditure we tested two monthly reviews to verify that only items over the threshold of £6,000 were capitalised.	✓
Journal authorisation: A sample of 40 journals were selected and checks carried out to confirm there is segregation of duties exist in who raises and who authorises journal entries.	✓

The ‘assurance hub model’ was approved for adoption following a vote amongst elected members. Having read the options appraisal and listened to the debate, we consider these actions support an appropriate depth of change to the governance of ALEOs to a level that is commensurate with the Council’s depth and breadth of ALEOs.

Audit Scotland is conducting a performance audit over ALEOs, with the Council having been picked as a case study. The audit includes a specific focus on new and emerging ALEO models such as those providing care services. The findings will be reported in early 2018.

Wider scope and Best Value

Governance and transparency (continued)



DRAFT

Internal audit

Internal audit is provided by Aberdeenshire Council's shared service internal audit department and supports management in maintaining corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit.

From this assessment, and considering the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*), we took the decision not to use internal audit's work to inform our procedures. We are working with internal audit to identify areas where we can place reliance on its work in future years.

Our review identified that the internal audit function generally conforms with PSIAS, although note that management would like the internal audit function to deliver to the same standards as those expected of an internal audit function in a listed commercial business. To this end we performed an effectiveness review on behalf of the Council in 2016-17, identifying improvement opportunities in respect of risk assessment, assignment scoping, specialist resource and performance measures. The recommendations are being considered as part of the governance review.

Due to the flexible nature of the internal audit plan, not all internal audit work was completed by 31 March 2017, with 73% of reviews complete by this date. This is an improvement from the prior year where 50% were complete. All audits from the prior year have now been completed.

The controls assurance statement states that "reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system for 2016-17. This statement does contain caveats with regards significant concerns raised identified in the year in relation to recommendations graded as 'major' (in budget monitoring, compliance with procurement legislation, adult social work purchasing and creditors procedures and agency staff reviews) and the limitations of scope of planned internal audit work due to a lack of systems access and provision of requested information.

The review of internal audit reports and conclusions did not indicate additional significant risks not already identified and there is no impact on our planned substantive testing.

Conclusion

Management has demonstrated a commitment to achieving best practice in its governance arrangements. There is evidence of a good pace and depth of change since the implementation of the governance review, although we note not all actions have been able to be delivered on time. We consider that embedding the changes in to the Council will support management in achieving best practice, and we have seen a number of areas which already meet best practice.

Wider scope and Best Value

Value for money



DRAFT

Value for money is concerned with using resources effectively and continually improving services.

Following the Public Pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). We considered management's processes to comply with the FtPP Code. The Council has developed a local code of practice which applies the FtPP Code in the local context of the Council's interactions with its ALEOs. The local code sets out four tiers of external organisations based on level of annual funding provided by the Council. Based on these tiers a risk-based approach is taken regarding the assurance required by the Council on arrangements with ALEOs. Tier 1 organisations are those in receipt of over £7 million funding from the Council. Each service committee will oversee the funding of such ALEOs in its area as its Monitoring Body, and will receive an annual report from the budget holder.

Options appraisal

The Council reviewed its processes for options appraisal during the year, being an important area in light of the transformation programme and capital plan.

We have seen evidence of significant improvements to the Council's approach to options appraisal, in particular for the Aberdeen Exhibition and Conference Centre ("AECC") operator, the new ALEOs governance model and appraisal of options for financing the AECC construction. This is an area of focus for our year two Best Value work.

Value for money in key decisions

The Council has faced and will continue to face difficult decisions in how funding will be spent. The forecast funding gap of £143 million over the next five years necessitates value for money be achieved, effective options appraisal and governance around policy and resourcing. The transformation programme has a focus on VFM and emphasises the need to deliver existing services in a more cost efficient manner.

The Standing Orders help to ensure that decisions about spend are being made at the appropriate level and the Council will have to make an increased number of difficult decisions over the next five years. In February 2017 the Council approved a voluntary redundancy scheme. It is important that the right decisions are made about applications under this scheme to ensure that VFM is achieved through this process. Our testing of exit packages paid in 2016-17 identified that all had followed the appropriate policy.

Aberdeen Exhibition and Conference Centre – continuous improvement

With the development of the new Aberdeen Exhibition and Conference Centre (AECC), management undertook a procurement exercise to appoint a new operator and management of the AECC. Members were provided with detailed analysis of the procurement process and evaluation undertaken by officers. A number of criteria were considered in the evaluation, covering the financial offer, deliverability and legal and contractual.

The outcome of the procurement exercise was to appoint SMG Europe.

As the procurement was not solely financially driven, value for money considerations were evidenced to balance the need of appointing an operator with global reach and additional benefits with the overall cost to the Council.

Wider scope and Best Value

Value for money



DRAFT

Continuous improvement

Continuous improvement is evident in a range of ways at the Council. Management's response towards the findings of previous Best Value reports and other external reviews has demonstrated a commitment to achieving operational excellence.

Service improvement plans are being implemented with a starting position of stating the service improvement outcome. These are being linked to the local improvement plan. Management recognises there is further work to embed a continuous improvement mindset within the Council; the transformation programme now has a workstream on improvement.

Commissioning and procurement

The Council has a dedicated procurement function which it shares with Aberdeenshire and Highlands Councils, which allows the Council to realise VFM through greater buying power and economies of scale. This function also regularly receives high ratings in the PAC.

Partnership working

There is strong evidence of partnership working between the Council, Aberdeenshire Council and NHS Grampian. As well as the shared procurement function, internal audit function. The recent City Deal has brought joint governance arrangements between Aberdeen City and Aberdeenshire.

Previous other joint working arrangements had been in place for the section 95 officer and head of education. Whilst the Council undertakes its reorganisation to the 'target operating model' these arrangements are not in place. We do not consider that this impinges on the Council's desire to deliver effective services across the range of public sectors through partnership working.

Through discussions with senior Council staff we understand that further partnership working is being considered as part of the transformation project, with potential for services provided by the Council to be provided to other public sector organisations.

The largest area of partnership working is through the IJB. The IJB agreed payments to be made in advance of the start of the financial year. Going forward the IJB will present a budget, based on the strategic plan, to the partners for consideration as part of each partner's annual budget setting process. Payments to be made to the IJB will require to be formally advised by the 28 February each year in line with the Integration Scheme.

Alternative models of service delivery

This is an emerging area for the Council and one that could be a strength in future years. Due to the current financial climate and management's desire for depth of change in the Council, a number of alternative models of service delivery are being considered and this is an area that is high up on the Council management teams agenda. Some examples being considered include digitisation and robotics. Management has sought external advisors to support its analysis and review of such delivery models.

Conclusion

We consider that the Council has appropriate arrangements for complying with the FtPP Code.

Options appraisals and business cases processes have developed over the year, with value for money considerations being evident.

There are a number of areas of partnership working with other public sector entities and there is clear evidence of a commitment from management for continuous improvement.



Appendices

Mandated communications with the Audit, Risk and Scrutiny committee

DRAFT

MATTERS TO BE COMMUNICATED	LINK TO AUDIT, RISK AND SCRUTINY COMMITTEE REPORTS
Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)	See appendix three.
The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)	Main body of this paper.
Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)	There were no such disagreements.
The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)	There are no such matters to report.
Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)	See appendix six.
The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)	Accounting policies and practices selected by the Council are appropriate for the organisation and are in line with the requirements of the Local Authority Code of Practice (page 13).
The auditor's view on valuations and related disclosures (ISA 260)	See conclusion on page 18.
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)	There are no such matters to report.
Expected modifications to the auditor's report (ISA 260)	There are no such matters to report.
Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240)	There are no such matters to report.

Appointed auditor's responsibilities

DRAFT

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix three outlines our approach to independence.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.</p>	<p>Page 13 summarises the opinions we have provided.</p> <p>Pages 26 and 27 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p> <p>Page 52 summarises the grant claims and whole of government accounts we have reported on.</p>
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 42 sets out our conclusion on these arrangements.
Wider audit dimensions	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; - Suitability of arrangements for preparing and publishing statutory performance information 	We set out our conclusions on wider scope and best value on pages 32 to 44.

Auditor independence

DRAFT

Assessment of our objectivity and independence as auditor of Aberdeen City Council (“the Council”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Exiting of prohibited non-audit services

We have concluded our review of services performed in respect of the Council in the last three years. We confirm that we either completed or terminated any services that would not be permissible under the FRC’s Revised Ethical Standard prior to 31 March 2017.

The following services were terminated:

- VAT claim advice: Support with two claims in respect of VAT, fee £49,000.

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period overleaf, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted.

Auditor independence (continued)

DRAFT

The ratio of non-audit fees to audit fees for the year was 2.36 : 1. We have considered the ratio of audit to non-audit fees. Prior to the appointment as the Council's external auditor we consulted with Audit Scotland and KPMG's Risk team with regards the non-audit services. The principal threat which arises from fees from non-audit services which are large in absolute terms of relative to the audit fee is the perception of self-interest. In this regard, we do not consider that the above ratio creates such a self-interest threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit director nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Council's financial statements. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out overleaf.

Contingent fees

Under the FRC's Revised Ethical Standard, no new tax contingent fees for listed entities can be entered into after 17 June 2016. We confirm that no new contingent fees for tax services have been entered into for the Council since that date.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Risk and Scrutiny Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit, Risk and Scrutiny Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Auditor independence (continued)

DRAFT

Total fees charged by us for the period ending 31 March 2017 can be analysed as follows:	2016-17 (exc VAT) £
Audit of the Council's financial statements	194,431
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	8,500
Total audit services	202,931
Other non-audit services	
• Capital financing advice	363,920
• Options appraisal and strategic review	50,000
• VAT claim advice	49,000
• Governance review – internal audit effectiveness and assurance mapping support	15,000
Total non-audit services	477,920
Total	680,851

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table:

Disclosure	Description of scope of services	Principal threats to independence	Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2017 £	Value of services committed but not yet delivered £
Capital financing advice	Advice in respect of commercial structuring and financial structuring for the capital financing. Support in respect of obtaining external credit rating.	Self-review, self-interest, advocacy	Self-review – engagement delivered by a team separate from the external audit team and did not involve actions which directly impact on the financial statements. KPMG did not assume a management role. Self-interest – engagement concluded prior to external audit commencing, fees paid prior to external audit commencing. Fees are not material to KPMG or the Council. Advocacy – KPMG did not engage with debt providers or promote a client position.	Fixed	363,920	

Auditor independence (continued)

DRAFT

Disclosure	Description of scope of services	Principal threats to independence	Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2017 £000	Value of services committed but not yet delivered £000
Options appraisal and strategic review	Options appraisal and strategic review relating to an associate entity of the Council.	Self-review, self interest	Self-review – engagement delivered by a team separate from the external audit team and does not involve actions which directly impact on the financial statements. KPMG did not assume a management role. Self-interest – engagement concluded prior to external audit commencing, fees paid prior to external audit commencing. Fees are not material to KPMG or the Council	Fixed	50,000	
VAT claim advice	Support with two claims in respect of VAT. Originally agreed on a contingent fee basis in 2013.	Self-review	Self-review – engagement delivered by a team separate from the external audit team and does not involve actions which directly impact on the financial statements. KPMG did not assume a management role and the claims relate to the application of tax rules.	Fixed	49,000	
Governance review support – internal audit effectiveness and assurance mapping	Review of internal audit effectiveness to support the overall governance review. Support with assurance mapping: provision of a template for assurance mapping and support with documenting the assurance for two selected risks from the risk register.	Self-review, management, advocacy	Scoping - engagements do not relate to the design of controls or processes. There is no assumption of a management role by KPMG. The management risk arises in the assurance mapping project but it is being led and delivered by the Council – KPMG's role is to guide the Council through how to form an assurance map for two risks on the risk register, for the Council to then plot the remaining risks and interpret the results. KPMG will not be acting on behalf of the Council or promoting a course of action.	Fixed	15,000	

Grant claims and WGA return

DRAFT

RETURN	DESCRIPTION	CONCLUSION
Whole Government Accounts ("WGA")	WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.	Our audit work over the WGA is ongoing. We have not identified any errors or issues to report to date.
Non Domestic Rates ("NDR")	NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels. In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as 'the notified amount' in a final return to the Scottish Government.	We did not identify any exceptions in our testing and expect to issue an unqualified opinion on the NDR return.
Housing Benefits ("HB")	The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions ("DWP") towards the cost of paying HB in their local areas. Claimants benefit either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.	Our audit work over the HB return is ongoing. We have not identified any errors or issues to report to date.
Criminal Justice Authority ("CJA")	The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005. Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.	Our audit work over the CJA return is ongoing. We have not identified any errors or issues to report to date.
Education Maintenance Allowance ("EMA")	EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.	We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.

Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit in the North East Scotland Pension Fund ("NESPF") and Scottish Teachers Superannuation Scheme ("STSS") are within an acceptable range of KPMG's expectations. We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19. We set out below the assumptions in respect of defined benefit obligations. DRAFT

North East Scotland Pension Fund																			
2017 £'000	2016 £'000	KPMG comment																	
218,746	221,749	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Assumption</th> <th style="width: 20%;">Aberdeen City Council</th> <th style="width: 20%;">KPMG Central</th> <th style="width: 30%;">Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>2.50%</td> <td>2.45%</td> <td>The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.</td> </tr> <tr> <td>CPI Inflation</td> <td>2.20% RPI less 1.00%</td> <td>2.40% RPI less 1.00%</td> <td>KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption. It could therefore be considered overly optimistic (lower liability). However, the assumption should not be considered in isolation</td> </tr> <tr> <td>Salary growth</td> <td>3.20% 1% above CPI inflation</td> <td>Typically 1%-2.5% above CPI inflation</td> <td>Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.0% p.a. above CPI inflation. However, this can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced. The closing deficit reduced by £3 million compared to 2015-16, primarily due to the decrease in the discount rate used (3.5% to 2.5%), offset with a decrease in salary increase (3.5% to 3.2%).</p>		Assumption	Aberdeen City Council	KPMG Central	Comment	Discount rate (duration dependent)	2.50%	2.45%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.	CPI Inflation	2.20% RPI less 1.00%	2.40% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption. It could therefore be considered overly optimistic (lower liability). However, the assumption should not be considered in isolation	Salary growth	3.20% 1% above CPI inflation	Typically 1%-2.5% above CPI inflation	Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.0% p.a. above CPI inflation. However, this can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.
Assumption	Aberdeen City Council	KPMG Central	Comment																
Discount rate (duration dependent)	2.50%	2.45%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.																
CPI Inflation	2.20% RPI less 1.00%	2.40% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption. It could therefore be considered overly optimistic (lower liability). However, the assumption should not be considered in isolation																
Salary growth	3.20% 1% above CPI inflation	Typically 1%-2.5% above CPI inflation	Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.0% p.a. above CPI inflation. However, this can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.																

Defined benefit obligations (continued)

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Scottish Teachers Superannuation Scheme																			
2017 £'000	2016 £'000	KPMG comment																	
31,021	29,369	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Aberdeen City Council</th> <th>KPMG Central</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>2.50%</td> <td>2.45%</td> <td>The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.</td> </tr> <tr> <td>CPI Inflation</td> <td>2.30% RPI less 1.00%</td> <td>2.40% RPI less 1.00%</td> <td>KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption. It could therefore be considered less prudent (lower liability). However, the assumption should not be considered in isolation.</td> </tr> <tr> <td>Salary growth</td> <td>3.20% 1% above CPI inflation</td> <td>Typically 1%-2.5% above CPI inflation</td> <td>Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. This assumption is lower than the previous year (RPI+0.9%) and is lower than what we generally see for participants in a number of other LGPS funds (typically around RPI+1%). However, this can be considered reasonable provided the assumption is in line with the management's best estimate view on future remuneration.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced. The closing deficit increased by £1.65 million compared to 2015-16, primarily due to the decrease in the discount rate used (3.4% to 2.5%).</p>		Assumption	Aberdeen City Council	KPMG Central	Comment	Discount rate (duration dependent)	2.50%	2.45%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.	CPI Inflation	2.30% RPI less 1.00%	2.40% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption. It could therefore be considered less prudent (lower liability). However, the assumption should not be considered in isolation.	Salary growth	3.20% 1% above CPI inflation	Typically 1%-2.5% above CPI inflation	Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. This assumption is lower than the previous year (RPI+0.9%) and is lower than what we generally see for participants in a number of other LGPS funds (typically around RPI+1%). However, this can be considered reasonable provided the assumption is in line with the management's best estimate view on future remuneration.
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Audit differences

The table below lists the adjusted audit differences identified during the course of our 2016-17 audit procedures.

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There are no unadjusted audit differences to report.

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
Long term debtors reclassification				
Short term debtors Long term debtors	8,914	8,914		
Being the reclassification of St NicolasHouse long term debtor to short term debtor as payable in 2017-18.				
Community charge debtor				
Short term debtors Bad debt provision	2,498	2,498		
Being the write off of community charges debtor due to the Council as this can no longer be recovered. The debtor related to the community charge had been fully provided.				
NDR debtor				
Non domestic rates income Short term debtors		976	976	
Write-off of prior year non domestic rates income which was not recoverable				
Investment in the Integration Joint Board				
Available for sale financial instruments reserve Long term investments	5,209	5,209		
Being the reversal of recognition of the investment in the Integrated Joint Board as does not meet the accounting definition of a financial asset.				
Integration Joint Board – CIES				
IJB expenditure IJB income			88,463	88,463
Gross income and expenditure within the CIES is understated and is required per legislation to be shown as grossed up.				

Audit differences (continued)

DRAFT

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
Revenue recognition and accounting treatment				
Service income			7,873	
Service expenditure				7,873
Being the reversal of earmarked funds incorrectly recognised as revenue. The release from earmarked funds is being recognised appropriately within corporate and miscellaneous service line.				
Bond accounting				
Financing and investment income and expenditure			4,336	
Short term creditors	32			
Long term borrowing: bond issuance		2,646		
Long term borrowing: bond premium		1,722		
Adjustments to take account of the appropriate calculation of the effective interest rate and adjust for previous journals posted for the bond indexation to date.				
Bad debt provision				
Service expenditure			3,014	
Bad debt provision		3,014		
Being the revision of the bad debt provision to ensure that all debt over 120 days to 40 years were prudently provided for.				
Homeless debtor				
Short term debtors	4,516			
Service income				4,516
Recognition of a debtor where a provision had been raised but the debtor and related income had not been recognised in the accounts.				
TOTAL	21,169	24,979	104,662	100,852

Audit differences (continued)

DRAFT

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
Adjustments which impact on the additional financial statements				
Disposal of non current assets in Housing Revenue Account ("HRA")				
Gain on Sale of HRA Non Current Asset Adjustments between accounting and funding basis: HRA	4,127	4,127		
The gain on sale of HRA non current assets recognised in the HRA income and expenditure statement was identified as being the net book value of the assets disposed. Proceeds from the sale were £10.7 million, and the gain recognised should be £3.4 million.				

A number of presentational amendments were also identified, the most significant of which related to:

- amendments to the housing revenue account housing stock numbers;
- updates to the lease disclosures for specific leases which had been incorrectly categorised or future lease payments differed in lease agreements;
- removal of disclosures in relation to transactions which did not meet the definition of an agency relationship;
- updates to the capital commitments disclosure to include total costs less expenditure to date and ensure that all contracted commitments are disclosed, not just those entered into in 2016-17; and
- reallocation of specific debtors between different categories.

Action plan

DRAFT

The action plan summarises specific recommendations arising from our work, together with related risks and management’s responses.

We present the identified findings across four audit dimensions:

- financial sustainability
- financial management
- governance and transparency
- value for money

Priority rating for recommendation

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Action plan (continued)

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Finding(s) and risk(s)	Recommendation	Agreed management actions
1. Development of documentation <i>Audit dimension: financial management</i>		Grade two
<p>There are a number of areas where supporting documentation for management's judgements or complex reconciliations could be enhanced.</p> <p>Without clear documentation of significant judgements, there is a risk of inappropriate accounting treatment particularly where staff change. Furthermore, there is a risk that balances recognised in the financial statements cannot be supported by appropriate evidence.</p> <ul style="list-style-type: none"> — Internal revaluations of heritage assets are documented on the TMS system which is accessed by the Curator team. There is minimal documentation, narrative or evidence to justify and support the valuations. — The impairment review does not fully document the scope of the assessment carried out by management and there is a risk that the full scope of challenge to assess any indicators of impairment is not recorded. — There are a number of large capital projects which have complex reconciliations of different types of expenditure to support the value of additions. The audit trail of such reconciliations was limited and required additional time to support such capital additions. 	<p>It is recommended that:</p> <ul style="list-style-type: none"> — sufficient supporting documentation and evidence be uploaded and held on the TMS system to support heritage asset valuations; — management strengthens the level of documentation produced in relation to the processes and challenge given to any indicators of impairment on properties within their remit; and — all relevant officers should be reminded of the importance of maintaining supporting documentation for capital additions and keeping appropriate records. 	<p>Finance will work with services to progress the recommendations made.</p> <p>Implementation date: 31/03/18</p> <p>Responsible officer: Senior Accountant</p>
2. Revenue recognition <i>Audit dimension: financial management</i>		Grade two
<p>Our testing identified a number of transactions credited to revenue where earmarked reserves were used for expenditure in the year. This is not in line with the Code's accounting treatment of recognising revenue.</p> <p>There is a risk that revenue is incorrectly inflated and the CIES does not present a transparent representation of transactions.</p>	<p>We recommend that management reviews the approach to recording movements from earmarked reserves. This should not be recognised revenue and movements should be appropriately highlighted within the financial statements.</p>	<p>Finance will review the approach to recording such movements and will implement a new procedure as part of the 2017-18 accounts preparation process.</p> <p>Implementation date: 31/04/2018</p> <p>Responsible officer: Senior Accountant</p>

Action plan (continued)

DRAFT

Finding(s) and risk(s)	Recommendation	Agreed management actions
3. Heritage assets valuation <i>Audit dimension: financial management</i>		Grade two
<p>Heritage assets are revalued internally by a team of Curators on an ad hoc basis. Whilst we agree that this is in line with the requirements of the CIPFA Code, there is a risk that high value heritage assets are not being valued to precision where the insurable value is correct.</p>	<p>Management should review the process for valuing heritage assets and consider engaging an external art specialist valuer to value the highest value heritage assets on a rolling basis.</p>	<p>Finance will work with the service to progress this recommendation. Implementation date: 31/03/18 Responsible officer: Senior Accountant</p>
4. Complex accounting treatments <i>Audit dimension: financial management</i>		Grade two
<p>Accounting for the bond issuance is complex and involves the calculation of an effective interest rate based on future forecast cashflows. Transactions for the bond were not included in the draft accounts, and were not agreed until late in the process.</p> <p>The Council has a number of ongoing projects which will have similar complex accounting treatments. There is a potential risk that accounts may contain significant errors or be delayed if complex accounting treatments are not agreed early or adequately documented.</p>	<p>For future complex financial transactions we recommend that management considers the accounting implications prior to the transaction taking place, and provide an accounting paper before the year end, to ensure these transactions can be agreed and incorporated into the draft financial statements.</p>	<p>This will be put in place for future complex transactions. Implementation date: 31/03/18 Responsible officer: Senior Accountant</p>

Action plan (continued)

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Finding(s) and risk(s)	Recommendation	Agreed management actions
<p>5. Debtor provisioning <i>Audit dimension: financial management</i></p>		<p>Grade two</p>
<p>For debtor balances greater than 120 days overdue, but under 10 years overdue, a bad debt provision of 40% is recognised. We consider that this is at the most optimistic end of an acceptable range as it is unlikely that significant debt over a year old will be collected and recommend that management review their debtor provisioning levels. Furthermore we consider the methodology for calculating the council tax bad debt provision is overly complex.</p> <p>There is a risk that debts unlikely to be recovered are not provided for and the Council has to write off significant balances in future years.</p>	<p>We recommend that management reviews:</p> <ul style="list-style-type: none"> — its debtor provisioning methodology for council tax to ensure an efficiency of process whilst still providing for an appropriate level of potential bad debt; and — the level of bad debt provision for debts that are greater than 120 days old but less than 10 years old to adequately provide for those debts unlikely to be collected. 	<p>Finance will review the methodology around debtor provision to improve process efficiency and ensure the appropriateness of the level of provision.</p> <p>Implementation date: 31/03/18</p> <p>Responsible officer: Senior Accountant</p>
<p>6. National Fraud Inquiry (“NFI”) <i>Audit dimension: governance and transparency</i></p>		<p>Grade three</p>
<p>After the identification of frauds during the NFI process, the matching system does not allow the Council to monitor recovery. The Council does not have a mechanism for monitoring the effectiveness of recovery between different services.</p> <p>There is a risk that current practices are ineffective or inefficient without oversight and monitoring.</p>	<p>It is recommended that the Council implements monitoring of the effectiveness of recovery from the NFI reports, to ensure resources are used efficiently.</p>	<p>The recovery process of losses to frauds in each service is different and is undertaken in accordance with relevant legislation. As such direct comparison of effectiveness in recovery is not possible.</p> <p>It is accepted that we do not gather the total losses to fraud and will, as part of our preparation for the NFI 2019 exercise, identify how this information can be collated and reported on.</p> <p>Implementation date: 31 January 2019</p> <p>Responsible officer: Corporate Investigation Manager</p>

Prior year recommendations

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We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2015-16 audit and their current status. Note that the previous external auditor did not provide a grade against each recommendation.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Interim	7	[...]	[...]	[...]
Final	3	-	3	-
Prior years	12	[...]	[...]	[...]

We have provided a summary of progress against in progress actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
ALEOs			
<p>In order to demonstrate best use in following the public pound, there should be agreed SLAs in place between the council and its ALEOs setting out measurable outcomes for the funding provided which can be effectively monitored by the governance hubs.</p> <p><i>Risk:</i> council expectations around the funding it is providing are not delivered.</p>	<p>The ongoing review of SLAs is concluded and ensure that the council can meet its following the public pound code requirements. This is being progressed with legal colleagues. Arrangements around ALEOs are included within the council's governance review which will impact on future SLAs</p>	<p>This is being progressed with legal colleagues. Arrangements around ALEOs are included within the council's governance review which will impact on future SLAs.</p>	<p>In progress: management has estimated that subject to co-operation from the ALEOs new agreements will be in place in 12 months. Without co-operation from ALEOs, because there are fairly long notice periods on the existing funding and service provision agreements, it could be years in some cases until the Council could threaten to terminate, which would give it the leverage required to make changes.</p>

Prior year recommendations (continued)

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Scrutiny			
<p>The dashboard supporting the Strategic Infrastructure Plan provides an effective summary of overall progress for each project. Where there are delays, the supporting narrative for the reasons is not included within the dashboard monitoring. We also noted that lessons learnt messages are not collated for members' consideration.</p> <p><i>Risk:</i> there is insufficient information or mixed messages around key priorities.</p>	<p>To further assist elected member scrutiny and increase transparency, progress reporting for capital projects should be reviewed to ensure cohesive information is provided and audit trails are complete.</p>	<p>Recommendations will be implemented as part of the review to be undertaken by the Strategic Asset and Capital Plan Board.</p>	<p>In progress: a capital programme governance review was carried out with findings and recommendations reported to ARSC on 22 June. This proposed a revision of the governance structure of the capital programme and the reporting mechanisms within it.</p> <p>Under the changes, all Strategic Infrastructure Plans and capital plan projects will be grouped together into programmes of work. Each programme will be governed by a programme board, have a Programme Sponsor and a Programme Manager. Project scrutiny and challenge will now take place at the programme boards, enabling the Strategic Asset and Capital Board to focus on its strategic role. The Board will receive highlight exception reports from each programme board, rather than the full dashboard giving an update on every project (if the Board wish to dive deeper into a project then this information will be available as necessary). All decisions required of the Board will be outlined in the highlight/exception report.</p> <p><i>Continued...</i></p>

Prior year recommendations (continued)

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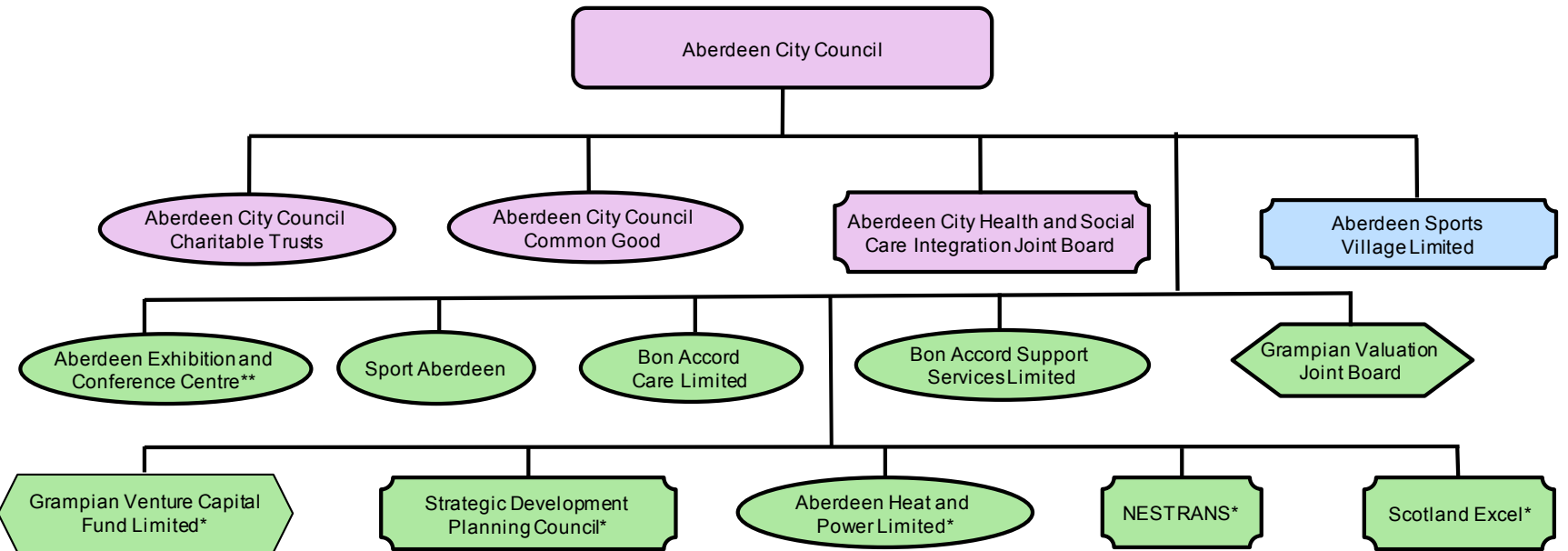
Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Scrutiny (continued)			
			A monthly Members Reference Group for the Capital Programme is also being introduced with a membership of five Councillors, three nominated from the Administration and two nominated from the Opposition. Much of the detailed scrutiny of the capital programme will take place via this group. Once this group has been formed, discussions will take place about the type and level of monitoring information it requires to fulfil its role.
Public performance reporting			
<p>The council is aware it needs to improve public performance reporting and has an agreed plan in place.</p> <p><i>Risk:</i> Public performance reporting is not easily accessible for users</p>	<p>Ensure there are processes in place to support delivery of the plan.</p>	<p>A Public Performance Reporting Improvement Plan was approved by the Audit, Risk & Scrutiny Committee in April 2016. Its implementation is being managed through a corporate performance management project, which is part of the council's governance review.</p>	<p>In progress: Implementation of the PPR Improvement Plan is underway, with some short term actions having been completed. The ongoing development work to transform the main ACC website (due for 'launch' late September) will by default meet some of the aims of improved PPR, through more accessible provision of information about council services. Staff resources have been focused on this area of work in the last six to twelve months.</p>

Aberdeen City Council group structure



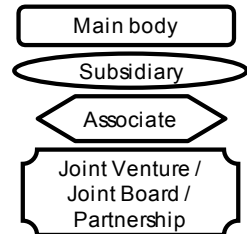
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Key

- Audited by KPMG “core team”
- Audited by KPMG – separate audit team
- Audited by component auditor – group audit instructions to be issued where considered significant components



* Entities not included in the group comprehensive income and expenditure account
 ** Aberdeen Exhibition and Conference Centre Limited ceased trading on 1 April 2017, and is classified as “held for sale” within the group financial statements



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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 September 2017
REPORT TITLE	Audited Annual Accounts 2016/17
REPORT NUMBER	CG/17/111
LEAD OFFICER	Steven Whyte, Head of Finance
REPORT AUTHOR	Lesley Fullerton

1. PURPOSE OF REPORT:-

- 1.1 The purpose of this report is to provide the Council's audited Annual Accounts 2016/17.
- 1.2 The report also provides the audited Annual Accounts 2016/17 for those registered charities where the Council is the sole trustee and is subject to statutory requirements for separate accounts and audit opinions.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Committee:
 - a) approve the Council's audited Annual Accounts 2016/17 for signature by the Head of Finance, Chief Executive and Council Leader; and
 - b) approve the audited Annual Accounts 2016/17 for those registered charities where the Council is sole trustee, and nominate a trustee to sign the accounts.

3. BACKGROUND/MAIN ISSUES

3.1 Audited Annual Accounts

- 3.1.1 On 23 February 2017 this committee received and noted the contents of a report, "Annual Accounts 2016/17 – Action Plan" which provided high level information and key dates in relation to the production of the 2016/17 Annual Accounts.

3.1.2 The key dates contained within the above report were:-

31 March 2017	End of the financial year 2016/17
March – Sept 2017	Information from Group Entities (including ALEO's)
14 June 2017	Public Notice for the Public Inspection Period to be issued
22 June 2017	Audit, Risk and Scrutiny Committee to consider the draft Annual Accounts
29 June 2017	Statutory deadline for the Proper Officer to sign the draft Annual Accounts, submit to the Auditor and publish on the website
30 June – 20 July 2017	Public Inspection Period for the draft Annual Accounts
28 July 2017	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
26 September 2017	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature
26/27 Sept 2017	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader
29 September 2017	Deadline for submission of the signed audited Annual Accounts to the Auditor
Early October 2017	Deadline for submission of the audited WGA to the Scottish Government (date to be confirmed)
31 October 2017	Statutory deadline for the publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
15 December 2017	Deadline for submission of the audited Charitable Trust Annual Accounts to OSCR

3.1.3 On 27 June 2017 this committee considered the unaudited Annual Accounts and they were signed by the Head of Finance (as Proper Officer) on 27 June 2017.

3.1.4 The unaudited Annual Accounts were available for public inspection for the period 1 – 21 July 2017.

3.1.5 This committee must now consider and aim to approve the audited Annual Accounts for signature.

3.1.6 In a separate report, this committee has considered the external auditor's Annual Audit Report to Members and the Controller of Audit. This report highlights any significant findings from the audit of the accounts and provides their audit opinion.

3.2 Financial Performance and Review of the Accounts

3.2.1 It should be noted that the audited Annual Accounts are prepared according to the requirements of the IFRS based Code of Practice on Local Authority Accounting (the Code) and as a result are more complex and detailed than the information included in the monitoring reports provided to Committee throughout the year.

3.2.2 A report detailing the financial position of the Council was considered by the Finance, Policy and Resources committee on 29 June 2017. This report covered the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2017.

3.2.3 The following paragraphs explain the audit adjustments made to the Annual Accounts:

3.2.3.1 The debtor in relation to the deferred capital receipt for the former St Nicholas House site was amended from long term to short term debtors to reflect that the monies will be received during 2017/18.

3.2.3.2 Income and expenditure in relation to the Integrated Joint Board (IJB) has been grossed up to reflect proper accounting requirements. In addition, the previously recognised share of profit in the IJB was removed to reflect the proper treatment of the IJB as a Joint Venture.

3.2.3.3 The accounting entries in relation to the council's bond issuance have been amended to reflect the requirement to account for the costs using an effective interest rate.

3.2.3.4 The accounting entries in relation to the use of earmarked reserves to fund expenditure have been amended to reflect proper accounting treatment.

3.2.3.5 As required by legislation, the outstanding debtor in relation community charges was written off. As there was a full corresponding bad debt provision for this the net effect on the council's financial position is nil.

3.2.3.6 The value of NDR debtor balances was reduced to reflect prior year NDR debtor balances written off.

3.2.3.7 Following review of the methodology for assessing the likelihood of payment, the level of bad debt provision in relation to sundry debtors has been increased. In addition, an adjustment was made to properly reflect the debtor in relation to homelessness against the bad debt provision made.

3.2.4 The group accounts have been amended to reflect the above adjustments as well as any changes arising from the audit of other group entities.

3.2.5 These adjustments do not affect the overall financial position of the Council as reported to Finance, Policy and Resources committee on 29 June 2017.

3.3 Registered Charities

- 3.3.1 This encompasses those trusts, registered with OSCR, for which the Council (all 45 Councillors) is the sole trustee. There are nine separately registered charities, which for reporting purposes can be grouped together into a single Annual Report and Accounts.
- 3.3.2 These accounts are subject to the same audit process as the Council with the audited accounts and related auditor's report included with the aforementioned report from the external auditor.
- 3.3.3 The committee must now consider and aim to approve the audited Annual Accounts for signature.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report.

5. LEGAL IMPLICATIONS

- 5.1 There is a statutory requirement for the Council to produce both unaudited and audited Annual Accounts within certain timescales and to a high standard in accordance with The Local Authority Accounts (Scotland) Regulations 2014, the CIPFA Code of Practice on Local Authority Accounting and generally accepted accounting practices. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

6. MANAGEMENT OF RISK

Financial

- 6.1 The robust process of closing the accounts at the financial year-end means that all reasonable steps have been taken to ensure that they are reflective of the financial circumstances of the Council during 2016/17 and as at 31 March 2017. Whilst there remained a risk that the external audit process would reveal errors or adjustments, these have been discussed by officers and the external auditor throughout the audit process and amendments made as appropriate prior to the presentation of the audited Annual Accounts and the auditor's report and opinion to this committee.

Employee

- 6.2 A detailed year end timetable was been drawn up to ensure all employees were aware of their involvement in the year end process and the information they must provide for the Annual Accounts. Whilst there remained a risk that the external audit process would reveal errors or adjustments, these have been discussed by officers and the external auditor throughout the audit process and amendments made as appropriate prior to the presentation of the audited Annual Accounts and the auditor's report and opinion to this committee.

Customer

- 6.3 The council's external auditors are KPMG, a highly reputable firm who have examined and analysed the Annual Accounts and reported their findings in their Annual Audit Report. This minimises any risk to users of the Annual Accounts.

Environmental

- 6.4 This report has no environmental risks.

Technological

- 6.5 The production of the Annual Accounts relies on the finance systems of the Council. There is a risk that these systems could be disrupted. To mitigate these risks the Council has a digital strategy that includes undertaking regular and rigorous checks, taking action as appropriate to protect the integrity of all systems.

Legal

- 6.6 The annual external audit scrutiny provides assurance that relevant legislation is adhered to. The risk of the Annual Accounts not complying with this legislation is therefore low.

Reputational

- 6.7 There is a risk that the information contained in the Annual Accounts document may cause damage to the Council's reputation. This risk is mitigated by independent examination by senior staff members and the external auditors.

7. IMPACT SECTION

Economy

- 7.1 The accounts for 2016/17 have recognised the role of the Council in delivering specific projects that will deliver economic impacts in their own right; and the Council's corporate role in delivering wider 'business facing' activity in supporting the competitiveness of the business environment.
- 7.2 The economy is exposed to external issues such as Brexit, globalisation and higher prices, as well as macro-economic issues relating to energy prices that will have a proportionately higher direct impact on the local economy than elsewhere in Scotland and the United Kingdom.

People

- 7.3 The Accounts for 2016/17 provide details of income and expenditure incurred in the provision of services in Aberdeen City for the year.

Place

- 7.4 The Annual Accounts report provides financial information to the people of Aberdeen regarding the services in their area. The narrative report contained within explains the governance of the Council, and projects that ACC has undertaken over the past year, along with future plans for Aberdeen City.

Technology

- 7.5 The aim of the Council's digital strategy is to make it easier for employees to do their jobs, give customers better choice in how they get information and use services, ensure that information is shared and to use data to make better decisions.

8. BACKGROUND PAPERS

Audited Annual Accounts 2016/17
KPMG Annual Audit Report to the Members of Aberdeen City Council and the Controller of Audit for the year ended 31 March 2017.

9. APPENDICES

Appendix A – Aberdeen City Council audited Annual Accounts 2016/17
Appendix B – Aberdeen City Council Registered Charities audited Annual Report and Accounts 2016/17

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ABERDEEN
CITY COUNCIL

ANNUAL ACCOUNTS
FOR THE PERIOD
1 APRIL 2016 TO 31 MARCH 2017

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Management Commentary

The purpose of the management commentary is to inform users of the Annual Accounts and help them assess how the Council has performed during 2016/17 and understand our financial performance for the year to 31 March 2017. It also provides an insight into the medium term financial planning we undertake to provide stability, financially, to allow our customers to have confidence that we can continue to provide the diverse portfolio of services on which they rely.

The Council, in preparing the accounts, is required to adhere to the relevant accounting standards in accordance with International Financial Reporting Standards. This differs from how the Council is funded and as such the accounts provide a reconciliation between the two reporting methodologies.

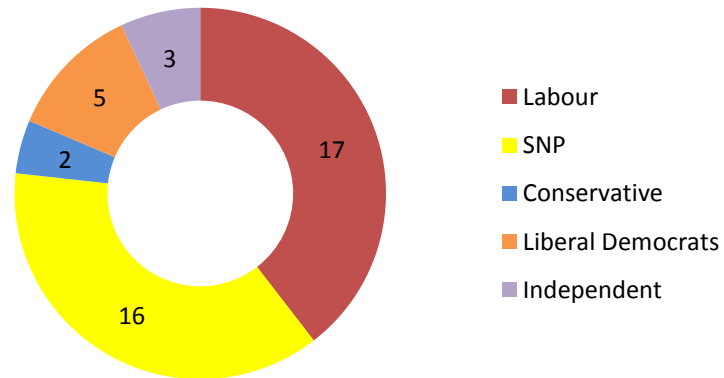
Who we are

We deliver services to 116,200 households, 10,000 businesses, serving a population of 228,000 people directly and on an operational basis the wider North East population of 489,000.

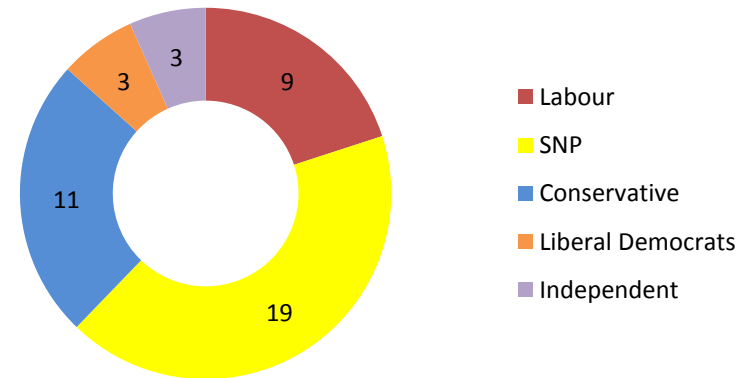
What we do

We are one of 32 Council's in Scotland. Our governance during 2016/17 was overseen by 43 elected members (with a Conservative/Labour/Independent joint Administration), who are elected every 5 years by the citizens of Aberdeen. The political makeup of the Council during 2016/17 is shown in the diagram below. The local government elections in May 2017 returned 45 elected members (and a joint Administration again being formed by the Conservative/Labour/Independent alliance) who will oversee our governance for the next 5 years and can also be seen below.

Political Make Up pre May 2017



Political Make Up post May 2017



How we do it

We have 8,600 employees and their commitment and professional expertise is critical to service delivery. The very nature of our services are such that we employ a diverse range of individuals – from teachers to social workers, from engineers to architects, from lawyers to accountants, from surveyors to administrators and everything in between.

We are organised around four core directorates – Communities, Housing and Infrastructure, Education and Children’s Services, an integrated structure bringing together the Council’s and NHS Grampian Adult Social Care services and Corporate Governance. We deliver this in the context of delivering Best Value – making the best use of public funds.

Our Goal and Plans

The Council’s Strategic Business Plan has been refreshed taking account of the recent Audit Scotland Best Value review and explains how the Council is transforming the way it does business and delivers services while reflecting the ambitions for the City with a focus on economic growth and an enhanced quality of life for citizens. The full Strategic Business Plan can be viewed at: <https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CIId=122&MIId=5544&Ver=4>

A key output of the Strategic Business Plan is the Strategic Framework which clearly shows the key plans and visions of the Council with clear and measurable objectives which will direct the actions taken, the services provided and the resources used. The key plans are:

- [Local Outcome Improvement Plan \(LOIP\)](#)

During 2016/17, the Council, as a statutory Community Planning Partner, adopted Community Planning Aberdeen's (CPA) Local Outcome Improvement Plan, which established improvement outcomes and associated measures for the ten year period of the plan. Through CPA, arrangements have been put in place to monitor and report on improvement, in terms of outcomes, to the CPA Board and Management Group. The full LOIP can be viewed at: <http://communityplanningaberdeen.org.uk/wp-content/uploads/2016/08/FINAL-LOIP-22-AUG-16.pdf>

- [Integrated Health & Social Care Strategic Plan](#)

The Aberdeen City Health and Social Care Partnership brings together adult health and social care services provided by the Council and NHS Grampian. The Integration Joint Board (IJB) was legally established on 6 February 2016 and has been fully operational since 1 April 2016. Whilst the Council is represented on the Board, the IJB has oversight and accountability of its business planning process, including the development of a Strategic Plan, performance management arrangements and public performance reporting. The Council determines the funding it will provide to the IJB, from which the IJB can issue direction to the Council, in respect of the functions delegated to it, on the services to be provided. Whilst the IJB is ultimately responsible for the delivery of those services, operationally the Council requires to monitor and be assured that it is providing the services it has been directed to, appropriately. The Strategic Plan 2016-19 was approved by the IJB on 29 March 2016. Further details can be found at: <http://aberdeencityhscp.co.uk/>

- [Regional Economic Plan](#)

In December 2015 the Council approved a Regional Economic Strategy for the North East of Scotland, providing a twenty year vision for the well-being of the place and our people through a longer term plan for economic development. The strategy identifies four programme areas reflecting the needs of the city region economy and the overall economic strategy for Scotland: investment in infrastructure; innovation; inclusive economic growth; and internationalisation. It further proposes a sectoral approach around four priority sectors that reflect the city regions competitive advantage in these sectors and their high performance and contribution to the Scottish and UK economies: oil and gas; food, drink and primary industries; tourism; and life sciences. Full details can be viewed at:

<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=122&MId=3612&Ver=4>

- [Aberdeen: The Smarter City](#)

The Administrations published vision for the City for 2012 – 2017:

“Our vision for Aberdeen is to be an ambitious, achieving, smart city”, which:

- Develops an economy based on knowledge and innovation;
- Encourages more efficient use of greener resource which generates a competitive economy;
- Uses technology and data to enable informed decisions to be taken;
- Enables citizens to interact in a city where there is a sense of place; and
- Encourages a form of governance which engages its citizens

The key priorities underpinning this vision are: *Smarter Living; Smarter People; Smarter Environment; Smarter Economy; Smarter Governance; and Smarter Mobility*. Further details can be found at: http://www.aberdeencity.gov.uk/council_government/performance/aberdeen_performs/abp_our_priorities.asp

The Council's budget has been aligned with the refreshed plan with the continuing pressure on public finances recognised as a constraint on service delivery whilst public expectations remain high and additional duties for councils create further resource pressures. To meet these challenges, the Strategic Business Plan is supported by Directorate and Service Improvement Plans which provide detail of how through the best use of resources, bringing modern and innovative change, the vision of the Council will be delivered.

To deliver our vision and objectives we must be fit for purpose and we aim to achieve this through our organisational plan called Shaping Aberdeen. We focus on three aims:

1. Our purpose – delivering outcomes through people, place and technology;
2. How we do business – delivering outcomes by innovation, modernisation and transformation; and
3. Our culture – delivering outcomes through improving our customer experience, staff experience and our use of resources.



Investing in our workforce

Investing in the future is an important outcome for us. However, investing is not just about infrastructure and buildings. We recognise that the ultimate success of our plans for the city depends on the quality of our workforce and so we have made significant investment in developing staff capability at all levels in order to ensure the long term sustainability of our workforce. We were awarded corporate wide Investors in Young People status in January 2017. We are currently seeking external endorsement of our employee practices through achieving accreditations as a Living Wage Employer.

At the same time we are increasing our profile as an employer of choice in the area, particularly for younger people. During 2016/17, we recruited 17 apprentices and provided placements for 88 trainee teachers as well as recruiting 414 staff in traditional professions.

Engaging with our staff

As well as investment in staff development we recognise the importance of an engaged and committed workforce. Over the last year we have ensured that staff engagement is a key part of our Key Performance Indicators. With this in mind, during 2016/17, we continue to develop three programmes of work around improving customer experience, staff experience and our use of resources – all of which have staff engagement at their core. Initiatives that have already been implemented include listening and responding to our staff through means such as opinion surveys and staff events; recognising and celebrating employee success, such as our annual STAR Awards ceremony; a focus on employee wellbeing through health fairs, free health checks and other wellbeing initiatives; and providing a means for staff to put forward ideas and suggestions through the introduction of our online Ideas Hub.

Diversity at Work

As an equal opportunities employer we comply with our obligations under the Equality Act 2010. As a diverse city we have a diverse workforce and operate with a culture which is open, fair and transparent where any unlawful or unfair discrimination, prejudice, stereotyping or harassment is challenged and addressed. We maintain pay equality within and across our workforce.

Our Relationship with Scottish and UK Governments and Europe

We work closely with both governments and seek to help to deliver national policy decisions. This partnership has led to us, along with Aberdeenshire Council, in securing a City Region Deal – a commitment from both governments to invest £125 million each with ourselves and Aberdeenshire to improve the infrastructure, business diversification and digital accessibility within the region. This £250 million commitment was further enhanced with the Scottish Government also providing an additional commitment to £254 million. The commitment from both Governments' shows the strategic importance of the City as an economic engine room within the UK. We also benefit from being able to access European Funding with a number of projects supported in this way in recent years, one of the most innovative being the introduction of Hydrogen Buses on routes within the city with £8.3 million of EU funding provided to support this.

As the United Kingdom continues to negotiate the implementation of the recent referendum on exiting the European Union the Council continues to monitor the impact this may have on its operations. At present there is no immediate financial risk but this will be monitored to ensure any impact can be mitigated against.

Our Financial Performance

- **Performance in the Year**

During 2016/17, the Council set a revenue budget of £756 million (being £669 million on the General Fund and £87 million on the Housing Revenue Account). The performance during the year resulted in a surplus of £3.0 million (represented by £2.5 million on the General Fund and £0.5 million on the Housing Revenue Account). The surplus is inclusive of bond interest, which has been offset by a transfer to the General Fund from the Capital Fund of £3.813 million. This reflects the service performance prior to any year end adjustments, such as the review of provisions and use of reserves and statutory funds, and statutory accounting adjustments such as revaluations, depreciation and IAS 19 adjustments and can be reconciled to the Expenditure and Funding Analysis (EFA) on page 44 and the Comprehensive Income and Expenditure Statement (CIES) on page 45 as follows:

	(Surplus) / Deficit	Year End Adjustments	BRIS Adjustment*	(Surplus) / Deficit	Use of Earmarked Reserves	(Surplus) / Deficit per the EFA	Statutory Adjustments	(Surplus) / Deficit per the CIES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	(2,566)	(4,142)	(2,719)	(9,427)	17,816	8,389	26,081	34,470
Housing Revenue Account	(500)	0	0	(500)	-	(500)	24,627	24,127
(Surplus) or Deficit on Provision of Services	(3,066)	(4,142)	(2,719)	(9,927)	17,816	7,889	50,708	58,597
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(26,827)
Total Comprehensive Income and Expenditure	-	-	-	-	-	-	-	31,770

* During the year, the Scottish government, under the Business Rates Incentivisation Scheme (BRIS) announced that the level of Non Domestic Rates collected by the Council for the financial year 2015/16 exceeded our target and therefore provided additional grant of £3.3 million. An adjustment of £0.6 million has been made in relation to the 2014/15 BRIS amount resulting in a net BRIS adjustment of £2.7m.

The total capital budget for the period 2016/17 to 2020/21 was set at £1,102 million. Over this time period the Council will require to borrow £560 million and the mechanism for meeting this requirement was considered during the year.

In order to best meet the borrowing requirements the Council took the decision to obtain a credit rating from Moody's Investors Service and received an exceptionally strong rating of Aa2, the third highest rating that can be given. The primary reason for obtaining a credit rating was to open new capital investment markets to the Council which otherwise would not be available. The rating assigned to the Council reflects a number of key strengths: the strong institutional framework for Scottish Local Authorities; the relatively strong local economy with some exposure to oil and gas industries, the strong financial performance track record of the Council which is expected to be maintained; and the slow evolution of the Scottish framework which brings insulation to fluctuations in key industries, whilst also recognising challenges: the projected increase in level and complexity of debt; and key project risks associated with the development of the Aberdeen Exhibition and Conference Centre.

Having obtained the credit rating, in November 2016 the Council issued an index linked Bond on the London Stock Exchange for £370 million and received a £44 million premium. The principal is due to begin being repaid in 2020 and the interest rate set at 0.1%. As such, the Council must also now comply with a new regulatory framework as laid out by the

London Stock Exchange and the Financial Conduct Authority. Our accounts and supporting processes will be audited to ensure compliance with these regulations as well as normal accounting practices applicable to other local authorities in the United Kingdom. Accounting for this type of bond is complex, with a requirement to estimate the impact of indexation over the life of the bonds and thereafter account for the expected contractual cashflows and amortisation of the premium using an Effective Interest Rate. These accounting entries are reflected within Financing and Investment Income and Expenditure in the CIES and Long Term Borrowing in the Balance Sheet.

The resultant movement in the Balance Sheet is shown on page 46. This shows that whilst total liabilities increased by £400 million, there was a corresponding increase in total assets such that overall net assets decreased minimally over the period. An increase in long term assets of £86 million over the year was partly due to revaluations but also reflects the level of investment made by the Council in new and existing assets.

The most significant projects undertaken during the year within the General Fund programme were: Aberdeen Western Peripheral Route; 3rd Don Crossing; A96 Park and Choose/Dyce Drive Link Road; Renewal and Replacement of Roads Infrastructure; Property Condition and Sustainability Programme; Fleet Replacement; Waste Projects; New ASN School; Art Gallery Redevelopment; and the New AECC development.

The HRA programme included: Structural Works on Multi-Storey Blocks; Heating System Replacement; and new Affordable Housing.

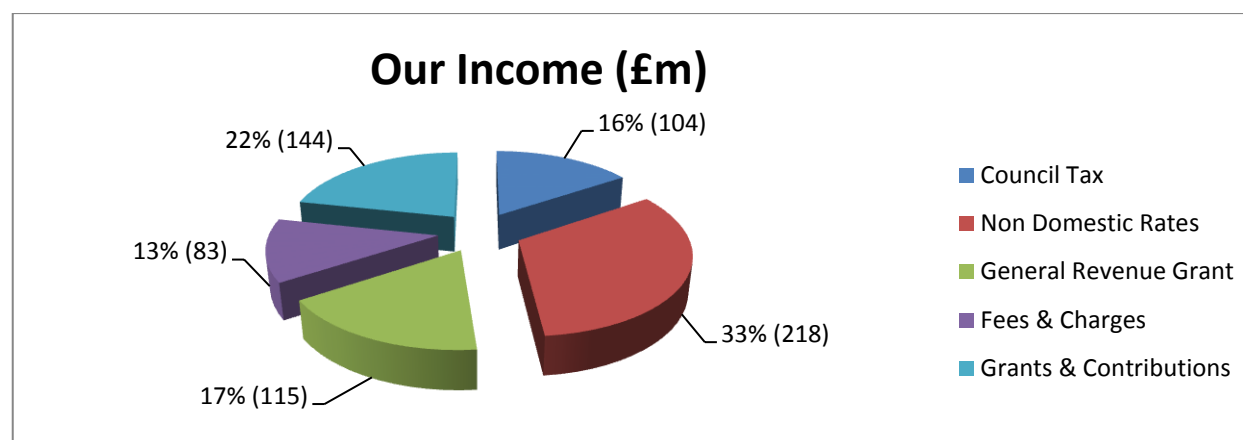
The Council is also progressing with a number of large scale projects:

- The Marischal Square development is a key scheme in the regeneration of the City Centre. The Council has entered into a number of agreements to deliver retail/restaurant units, hotel and office accommodation on a 'development strip lease' basis. A hotel franchise has been agreed for the site whilst a number of discussions are well underway with tenants for the retail/restaurant units and office accommodation. Construction on site is progressing well and within the timescales expected such that the further £9 million capital receipt for the site, due on practical completion, is due to be received during 2017/18.
- A project to provide a new Aberdeen Exhibition and Conference Centre, which will support and enhance Aberdeen's place culturally and in the global oil and gas industry, is at an advanced stage with construction of a hotel, conference centre and energy centre underway and planning permission for a second hotel is expected in June 2017. Having assessed various funding mechanisms for the development the Council took the decision to encompass this project within its capital programme and fund through borrowing. While income levels will vary, especially in the early years, in overall terms the development is expected to be cost neutral to the Council compared to the current financial structure that is in operation for the existing site.
- The Council has committed to building a new academy to the south of the city in conjunction with Hub North Scotland Ltd through the Scottish Futures Trust (SFT) funding model whereby the capital cost is largely met by SFT, with the Council committing to ongoing revenue costs for a 25 year period.
- The Council has formed a Limited Liability Partnership (LLP) with Places for People in the name of Shaping Aberdeen Housing LLP. The LLP's five year business plan was approved by both LLP members, with Council approval on 15 March 2017. The aim of the partnership is ultimately to deliver 1,000 affordable homes which are vital to addressing housing shortages across the City. This method of delivery brings private sector experience and expertise in the delivery of affordable and private housing, using a standardised product where appropriate to assist in the speed of delivery. Whilst the Council will contribute land to the project, the private sector partner will provide increased ability to lever in finance to fund development as well as ongoing management of the properties. Both parties will share in the development risk and profit of the scheme. The first project will commence in summer 2017 with the development of 369 properties for mid-market rent in the Summerhill area of the City.
- The first section of the Aberdeen Western Peripheral Route formally achieved "permitted for use" status on 22 September 2016 and unitary charge arrangements commenced. The remaining sections of the road are expected to achieve "permitted for use" status during 2017/18. This new trunk road is funded by the Scottish Government, Aberdeen City Council and Aberdeenshire Council with a funding agreement capping payments from the Councils.

The City Centre Masterplan was approved by the Council in June 2015 and provides an overall framework for the city over the next 20 years, focussing on projects which aim to anchor the City further in the economic wellbeing of the UK as a whole. The operational delivery of the plan is progressing with outline design for the redevelopment of Union Terrace Gardens approved in March 2017 and the Conservation Area Regeneration Scheme for Union Street, having received confirmation of match funding from Historic Environment Scotland in February 2017, due to formally start in April 2017.

- **Where We Receive Our Income**

Our General Fund, prior to any statutory accounting adjustments raises income through 4 methods. Firstly, we raise council tax income locally. Secondly, we raise income through Non Domestic Rates which forms part of the overall government funding distribution mechanism. Thirdly, we receive a general revenue grant from the Scottish Government as well as grants and contributions from other bodies. Finally, we raise fees and charges locally (through car parking charges, investment income and charges for services we provide). The total income is shown below and demonstrates our sustainability and resilience through different income sources. This diversity allows us to ensure we can continue to plan in the medium term on delivering services to our citizens.

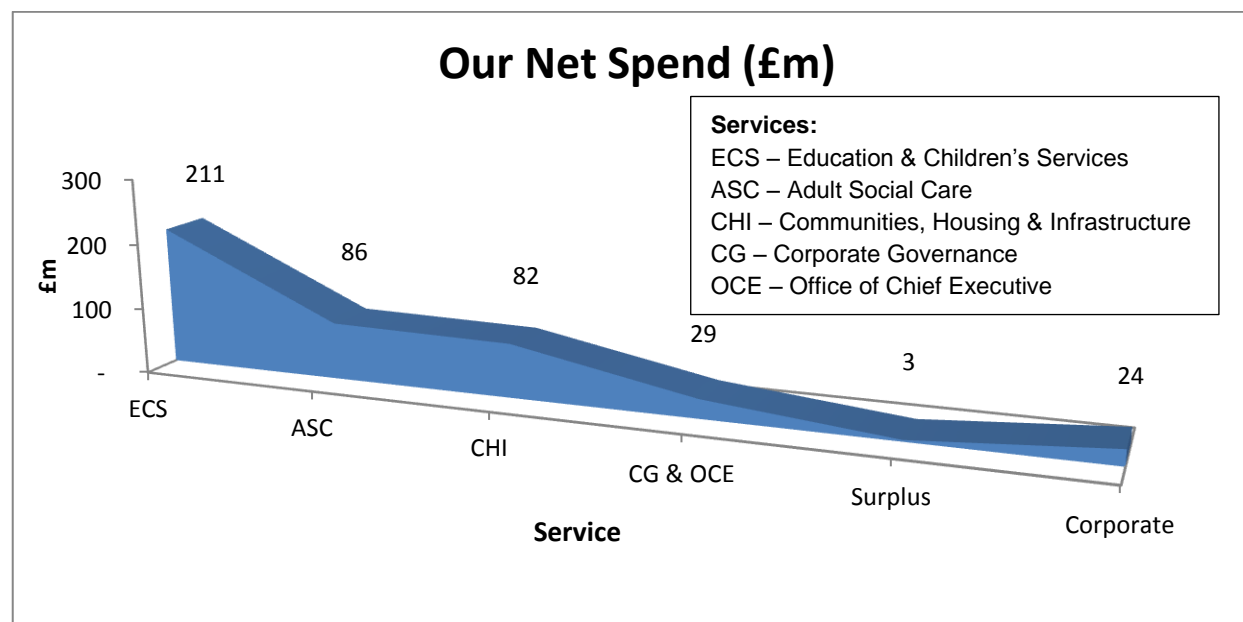


The Council can expect to face further reductions in the level of funding by way of government grants going forward and is already well placed to meet these challenges. Service re-design will be a strong feature on how we propose to embrace these new financial challenges going forward and plans are already in place to make sure financial targets continue to be met as they have been over a number of years now.

In managing these income streams it is important that we maintain a strong liquid position in relation to access to money. Liquidity measures our ability to access internal sources of funds such as cash reserves and cash flow generation (or investment income) and external sources such as banks, money markets and other corporate bodies. Given the strength of our balance sheet and the level of reserves that we hold we were able to again show strong investment returns and access to funding to finance short term funding requirements. We maintained an average surplus cash balance of £163 million during the year demonstrating our strong liquidity position. We have a stringent counterparty list (third parties with whom we will invest) to preserve the capital value of any investment and these all combine to reduce the cost of our borrowing through the loans fund rate.

- **Where We Spend Public Funds**

As previously indicated we provide four core services supported by the Office of the Chief Executive with our corporate budgets, predominantly capital financing costs, being the balance of our budgeted spend. Prior to any year end or statutory accounting adjustments, our use of public resources through the General Fund is shown in the Expenditure and Funding Analysis (EFA) on page 44 and graphically below:



Our Reserves

The Council’s usable reserves have reduced slightly year on year to ensure that we maintain a low level of debt to revenue ratio and ensure the long term affordability of our capital investment programme. We continue to provide for future liabilities and where ever possible aim to de-risk the future financial position of the Council. In setting the 2017/18 budget we approved a fund to support our change programme, with £6 million created from the 2016/17 underspend. We also maintained our risk fund at £8.4 million thereby further mitigating any short term impact on the operations of the Council in year. This was done against a back drop of reduced grant funding from the Scottish Government and demonstrates our commitment to seeking to provide in-year assurances that spend against budget can be achieved. Our reserves are detailed in Notes 5 and 6 on pages 68 to 74.

Group Accounts

The Aberdeen City Council Group consists of subsidiaries, joint venture and associate companies that are combined with Aberdeen City Council to produce a group balance sheet with total assets of £3,039 million. This is an increase against the total assets of the Council, which are £2,930.4 million, and is principally due to the inclusion of the net assets of the Common Good and Trust Funds (the in-year performance of which are detailed below). Performance of subsidiary companies varied with a mixture of surpluses and deficits reported in 2016/17. Details can be seen on page 150.

- **Common Good**

Against a budgeted increase to working balances of £0.07 million, the Common Good recorded a surplus of £0.5 million, largely due to increased rental income and lower than anticipated spend on a number of projects. As many of these projects are ongoing a sum of £0.3 million has been earmarked to provide the necessary funding to complete them during 2017/18.

The above surplus is before gains on the disposal and revaluation of assets and other accounting adjustments are applied. The value of the Common Good is £111.2 million at 31 March 2017, a decrease of £1.3 million from last year, reflecting movements in the value of assets to reflect current market conditions. Further details on the Common Good can be seen at pages 135 to 137.

- **Trust Funds And Endowments**

The Council administers a number of trust funds and endowments. Some of these have charitable status which requires separate accounts to be prepared and audited for submission to OSCR (Office of the Scottish Charity Regulator). The value of all the Trust Fund balances at 31 March 2017 was £9.5 million, a decrease of £1.2 million from last year, largely due to changing asset values reflecting the current market. Further details on the Trust Funds and Endowments can be seen at pages 138 to 140.

- **Aberdeen Exhibition and Conference Centre Ltd (AECC Ltd)**

During 2016/17, the Council undertook a procurement process to appoint an operator for the existing Aberdeen Exhibition and Conference Centre for the next two years and the new facility for a ten year period. The outcome of this process saw the appointment of SMG Europe as the new operator from 1 April 2017. Steps have been taken to hand over the operation from AECC Ltd to SMG Europe with the intention that AECC Ltd as a company will be wound up during 2017/18. The annual accounts of AECC Ltd are reflective of the agreed position in relation to its assets, liabilities and reserves and has been accounted for as a discontinued operation.

Performance Management

The Council is required to report details of its performance across a range of indicators, aligned to identified priorities each year, and does so regularly to our relevant committees. The performance of all thirty two councils in Scotland is monitored through the Local Government Benchmarking Framework, through which Audit Scotland, in part express their Statutory Direction on Performance Reporting.

A revised Performance Management Framework (PMF), incorporating a standard reporting template, was agreed by the Corporate Management Team and subsequently implemented across services. The PMF will continue to be enhanced during 2017/18 through the Performance, Risk and Improvement Board which reports to the Change Delivery Board.

The Council is involved with a number of Arm's Length External Organisations (ALEO's), a number of which form part of its group and are reflected in the group accounts on pages 141 to 159. It is worth noting that our ALEO's do not carry any loan debt on their balance sheets. Significant investment is made in ALEO's by the Council and proper consideration must be given to their performance and governance arrangements with a framework of governance hubs in place to scrutinise a range of information including operational and financial performance and people and risk management. This provides a strong platform from which to ensure review of the performance of ALEO's is embedded in the Council's culture.

Economy

Aberdeen sits at the centre of the North East of Scotland economy which is one of the most prosperous regions in the UK. Economic activity in Aberdeen and the North East is high due to a host of factors including the Oil and Gas Sector. This diversity provides significant opportunities to sustain and grow activity in both the short and longer term.

The decline in the price of oil has had an impact on the Aberdeen economy. Oil & Gas UK estimate that the UK Continental Shelf (UKCS) currently supports around 330,000 jobs, most of which are highly skilled and well paid.

The immediate focus is on maximising economic recovery from remaining oil and gas reserves in the UKCS while we identify ways to anchor expertise and activity in the North East region. The Aberdeen and North East economy is broader than oil and gas and there are a range of other high value sectors in the city and region including energy (renewables), tourism, food, drink, agriculture, life sciences and the creative sector. We aim to retain the global talent in Aberdeen and further diversify our economy to these areas to increase our resilience from any future oil and gas price shocks.

Indeed, the level of Non Domestic Rates collected within Aberdeen City is estimated to account for almost 7.7% of the total Scottish NDR collectable during 2017/18, demonstrating the economic strength required from within the City to maintain Scotland wide income levels for distribution to all local authorities. Against this back drop of economic difficulties within the Oil and Gas sector it is worth noting that the number of dwellings in the City increased during 2016/17 from 114,712 to 116,173 an increase of over 1,400 and demonstrates the level of confidence that still exists locally.

The Council recognises that there is a continued shortage of housing within the City to attract and house new workers. Population growth is still estimated to grow over the next 35 years and this is borne out by the views captured within the local development plan of developers within the city. The extracted data on the developer's views of construction of new houses in Aberdeen up to 2025 shows new house units of more than 11,000 units. These units will vary in size and value depending on where they are built in the city. What this does provide is a clear understanding that, all things being equal, there will be an additional 11,000 units by 2025. The population is predicted to increase by a further 21,000 from 2025 to 2039, which with an average number of residents per household of 2.08, suggests a further 10,000 units required between 2025 and 2039.

Population information for the Aberdeen City area has been sourced from the Scottish Government, showing projections up to 2039. Initial indications are that the total population for Aberdeen City is likely to increase from its current levels of 228,000 in 2016 to 268,000. This will obviously increase pressure on a huge range of Council services, including roads, education and social care, as well as partner services such as health but will also provide us with new opportunities to grow our income base and further embed Aberdeen as an economic anchor in the wider UK economic performance. The housing developments referred to above will be required if this projected population growth comes to fruition and we are actively looking at how we can facilitate this continued demand pressure by generating new income streams and growing our financial strength and sustainability.

2017/18 Budget and Medium Term Financial Outlook

The Council set its 2017/18 General Fund revenue budget and five year indicative capital budget on 22 February 2017. Against a backdrop of reducing revenue funding, the 2017/18 budget presented £31.9 million of service options to Elected Members from which to not only balance the budget but also create a surplus to support our change programme. This is the first time in 4 years the Council has had to identify significant savings as our medium term financial plan strategy has been set to ensure that we have a balanced financial position over the medium term. 2016/17 saw the end of this plan and we now seek to provide further financial stability over the next medium term financial planning period to continue to deliver a stable financial platform on which to provide and grow our services.

In obtaining a credit rating it was important that we could demonstrate the medium to long term affordability of issuing a bond which we did. Plans are already well placed to continue to ensure the Council is able to meet its statutory obligation of setting an annually balanced budget. It is clear that in the medium term all Council's, including Aberdeen City Council will face further austerity measures.

Aberdeen City Council is pro-active in facing these economic conditions with a well developed Economic Strategy that aims to work with the business sectors locally to continue to grow and diversify the local economy, while at the same time identifying potential new commercial opportunities giving the council the opportunity to be more self-sustaining. This has been captured through a 35 year projection of where key income and expenditure movements are likely to occur. Our long term planning will focus on these key areas.

We also plan to examine the use of our reserves to invest inwardly to transform how we provide services for the 21st century but will do so only where there is a strong internal rate of return which will reduce ongoing revenue commitments but also strengthen the balance sheet further.

In setting the 2017/18 budget, the importance of maintaining sufficient working capital was recognised with a review of earmarked reserves undertaken, which included maintaining the Financial Risk Fund (providing a total fund of £8.4 million) thereby providing further assurance of the Council's ability to meet any unforeseen costs that arise. This is particularly prevalent in the context of the continued austerity measures being implemented by the UK and Scottish governments, inflation levels, changing energy prices, other cost pressures arising directly from rising prices, demographic changes and additional legislative initiatives placed on the Council. In addition, sums continue to be set aside for future capital investment to maintain our low debt portfolio through earmarked sums and the Capital Fund whilst the level of uncommitted reserves has been maintained at the previously agreed level of £11.3 million.

A number of key assumptions have been made in the 2017/18 budget and indicative five year budgets including: a 1% annual staff pay award which we are currently reviewing, increased costs from changes to the Teachers Pension Scheme, increased investment in waste to ensure delivery of the Council's waste strategy, reductions in consumption of utilities, increased investment to reflect demographic factors impacting on the delivery of social care and children's services, increased investment in teachers to reflect growing numbers of school children and government policy, impact of Adult Health and Social Care Integration, and a capital programme reflecting the Council's investment ambitions over the next five years.

Conclusion

The Council achieving a credit rating of Aa2 demonstrates external assurance on the financial governance and strength of the organisation allowing investors to have confidence in both the Council and Aberdeen, the place, to invest in a £370 million bond issuance. The Council is the first in Scotland to receive a public credit rating and provides the opportunity for the Council to grow in financial strength going forward.

The 2016/17 financial year results showed a surplus before adjustments of £3 million for the year across all accounts. Taking BRIS funding into account increases this surplus to £5.7 million. This shows another strong performance over the year and this surplus will be set aside to provide investment to further reduce our costs going forward to ensure longer term stability in service delivery going forward through an exciting Transformation Programme putting Communities at the heart of our decision making.

We will continue to invest in our staff and the infrastructure of the City in a financially sustainable way. Investment in providing an economically diverse and culturally rich environment, we believe, will continue to make Aberdeen a location of choice. We are more than a Council – we aim to shape the future of Aberdeen, and that is “Shaping Aberdeen” in practice.

Acknowledgement

The production of the Annual Accounts is very much a team effort involving many staff from across the organisation, as well as those in the wider Aberdeen City Council group. We would like to take this opportunity to personally acknowledge the considerable efforts of all staff in the production of the 2016/17 Annual Accounts.

Steven Whyte, CPFA
Head of Finance

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

26 September 2017

Statement of Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Council has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- ensure the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the annual accounts for signature

Signed on behalf of Aberdeen City Council

Councillor Douglas Lumsden
Co-Leader of the Council
26 September 2017

The Head of Finance's responsibilities:

I am responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation);

I have also:

- kept adequate accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2017.

Steven Whyte, CPFA
Head of Finance
26 September 2017

Annual Governance Statement

Purpose of Annual Governance Statement

The CIPFA / SOLACE Framework “*Delivering Good Governance in Local Government 2016*” sets out a standard for good corporate governance and a requirement for local authorities to produce an Annual Governance Statement.

The purpose of this Statement is to report publicly on the extent to which we comply with our own Local Code of Corporate Governance, which in turn is consistent with the good governance principles in the Framework. This includes how we have monitored and evaluated the effectiveness of our governance arrangements over the previous year, and on any planned changes in the year ahead. It provides assurance in relation to our internal control structure and how we manage our resources. This Statement when compared to those from previous years demonstrates that governance arrangements are up to date and improving.

This Statement includes, as per the requirements of the Framework:

- Section 1** An acknowledgement of our responsibility to ensure that there is a sound system of governance in place.
- Section 2** Reference to and assessment of the effectiveness of our governance framework, to the roles played in maintaining this, and to the issues raised in the previous Statement and the extent to which these have been resolved.
- Section 3** A commitment to monitoring implementation as part of the next annual review.
- Section 4** An action plan to deal with Significant Governance Issues.
- Section 5** An opinion on the level of assurance that the governance arrangements can, and will continue, to provide.

Section 1 Scope of Responsibility

A governance framework has been in place at Aberdeen City Council for the year ending 31 March 2017 and up to the date of approval of the annual accounts.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out in the Strategic Business Plan 2017/18, where the role of governance, performance management and risk management are recognised as crucial in improving stewardship and how we do business. Reviewing our governance activity enables us to consider whether those objectives have led to the delivery of appropriate, cost effective services to the citizens of Aberdeen.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be approved by the committee and referred to Council for its consideration. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk and Scrutiny Committee.

The Council has an approved Local Code of Corporate Governance which sets out our commitment to the seven principles recommended in the CIPFA / SOLACE Framework 2016, by citing the primary sources of assurance which demonstrate the effectiveness of our systems of internal control.

Principle A	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Principle B	Ensuring openness and comprehensive stakeholder engagement
Principle C	Defining outcomes in terms of sustainable economic, social and environmental benefits
Principle D	Determining the interventions necessary to optimise the achievement of the intended outcomes
Principle E	Developing the entity's capacity, including the capability of its leadership and the individuals within it
Principle F	Managing risks and performance through robust internal control and strong public financial management
Principle G	Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The revised Code, approved by Council on 15 March 2017, can be viewed at: <https://committees.aberdeencity.gov.uk/documents/s67547/LocalCodeofCorporateGovernance.pdf>

The Council is a complex organisation with many controlling interests in other businesses so this statement extends to cover our relationships with the organisations included in the Council's Group Accounts, referred to as the ACC Group. As such the influence, accountability and responsibilities that the Council has to the organisations which form part of its Group are vitally important and it is essential that arrangements are in place which provide assurance to the Council in its relationship with these third party organisations.

Section 2 Review of Effectiveness

2.1 Review of Governance

In May 2016, the Corporate Management Team and Council together commissioned a comprehensive internal review of the Council's governance arrangements which would deliver:

- A governance framework to support the Council in implementing the Strategic Business Plan, particularly in relation to "how we do business";
- Reassurance to Audit Scotland in respect of their Best Value Audit findings from July 2015, particularly to ensure that the vision set out in Shaping Aberdeen is linked to corporate, service and individual objectives, thus strengthening the "golden thread" and ensuring that staff have a comprehensive understanding and commitment to the vision;
- Assurance that elected members are fully supported in their roles, particularly in relation to the scrutiny function; and
- Support for the cultural "triple aim" – Customer, Staff, Resources.

A dedicated resource was appointed in March 2016 to lead on the review, and a governance structure created to ensure optimum engagement with elected members and Chief Officers. A programme of work comprising over 30 projects was put in place with the support of the Corporate Management Team and Council, specifically the Governance Reference Group, a cross-party group of elected members.

This resulted in a number of key governance documents being approved by Council with cross-party support, prior to the local government election in May 2017. An additional benefit has been to emphasise the importance of strong governance, increasing engagement in the process of the review. It is expected that this will help to maximise the impact of the improvements to governance.

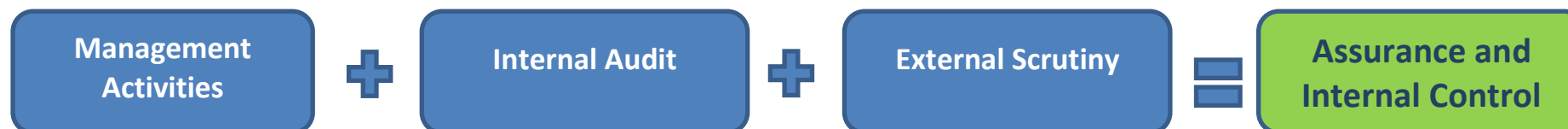
2.2 External Assessment

Given the specialist nature of risk management and its importance to a strong governance framework, the Good Governance Institute (GGI) was approached to evaluate the Council's system of risk management in August 2016 and is reported with an assurance development programme in September 2016. This recommended a series of governance and risk improvements which are in the process of being implemented through the Performance, Risk and Improvement Board within the Change Delivery Portfolio.

The Council also invited CIPFA to undertake an interim independent assessment of its governance arrangements, prior to a full assessment against the Mark of Excellence. This is a relatively new accreditation scheme, and Aberdeen City Council was the first local authority in Scotland to initiate this review. The results of the interim assessment are included in Table A. CIPFA produced a series of recommendations and actions for the Council to take forward to increase these scores, however it is noted that the overall score of 71% demonstrates that the Council is "substantially achieving" CIPFA's standard of good governance. In March 2017, CMT reviewed an action plan to address the areas where improvements are required. The outcome of the assessment and improvements will be a stronger, more robust, system of governance, reduced likelihood of governance failure, and as a result improved public services. Indications are that this will be within 12-18 months, but will be on a date to be determined by the Council. There will be on-going dialogue with CIPFA during this period.

2.3 Sources of Assurance

The Council approached the review of governance activity with reference to three layers of assurance, namely management activities both internally through the Council and externally through the Group; the assurance and recommendations provided by internal audit; and external audit and other external scrutiny reports.



2.3.1 Management Assurance

Each Head of Service has reviewed the arrangements in his / her portfolio and certified their effectiveness to the Head of Finance. These assurances included internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. Any significant control weaknesses are incorporated into the 'Significant Governance Issues' section (Section 4) where it is determined necessary. For 2016/17, other than those included in the significant issues table below, no issues were highlighted.

It has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer(CFO) in Local Government (2015). Furthermore in relation to the statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship they have had throughout the year with the Council and its officers, being full members of the extended Corporate Management Team. In addition the CFO and Monitoring Officer, or their nominees, are in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the Finance, Policy and Resources Committee.

Group Entities

In terms of the controlling interest in the group entities, assurances in relation to their control environment have been sought and received from organisations included within the Group. This assurance has been provided by either the Chief Executive or Director of Finance as evidenced by each organisations most recent audited accounts. There are no significant areas to be included in this statement. The Council receives assurance from elected members and officers who attend board meetings and receive operational and performance information on a regular basis. The ALEO Strategic Partnership has been established which brings together senior Council officers with senior ALEO representatives to discuss corporate governance, strategic planning, business planning and horizon scanning. A new model for ALEO oversight is being developed to receive further assurance from ALEOs based on their management of risk and this will be submitted to Audit, Risk and Scrutiny Committee in June.

Integration Joint Board

The Integration Joint Board (IJB) has undergone a significant amount of activity during 2016-17 to strengthen its governance arrangements. The Good Governance Institute has continued to support the Board's development by facilitating workshop sessions on Board dynamics and governance; and the Health and Social Care Partnership has prepared an implementation plan to action recommendations made by the GGI for further improvement. During 2016-17, the Board established two committees: the Audit and Performance Systems (APS) Committee and the Clinical and Care Governance (C&CG) Committee to support its functions, with the IJB and APS Committee now open to the public and press. The Board appointed internal auditors and a Chief Finance Officer. The Chairmanship of the Board has also transferred from the Council to an NHS Grampian representative and this term will run to 31 December 2018. The IJB has agreed a Local Code of Governance based on the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016 Edition) document.

The IJB agreed its first integrated budget on 7 March 2017 and approved the adoption of a budget protocol to ensure that both partners and all political groups would be consulted on the IJB budget process in future years. The Board has also agreed a senior leadership structure; a Financial Reserve Strategy; a performance management framework to monitor progress against the 9 National Health and Wellbeing Outcomes; and agreed how IJB decisions, in the form of Directions would be issued to both partners. The IJB has created a Developmental Timetable to record all workshops, briefings and training sessions to support members' professional development and increase the Board's capacity to make informed decisions. The IJB's standing orders are to be reviewed in August 2017.

The Chief Officer considers that the internal control environment operating during the reporting period provides reasonable and objective assurance that any significant risks impacting upon the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the internal control environment and action plans are in place to identify areas for improvement. It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board's systems of governance.

2.3.2 Internal Audit

The Audit, Risk and Scrutiny Committee remained responsible for ensuring the effectiveness of the internal audit function. The Internal Audit function continued to be provided through a shared arrangement with Aberdeenshire Council's Internal Audit Team during the financial year.

At the end of the year the Head of Internal Audit provided the Council with an Annual Report and Statement on its Internal Control System for the year ending 31 March 2017. The report provided details of the position relating to the audits contained within the 2016/17 audit plan and highlighted that the majority of recommendations made were accepted by management and if taken to full implementation will improve the Council's internal control environment. Having taken all factors into consideration the Statement on the Internal Control System concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2017. The report further confirms the organisational independence of Internal Audit.

The Audit, Risk and Scrutiny Committee received a range of reports during the year produced by Internal Audit which enabled scrutiny and questioning of officers to take place, such that the Committee has gained assurance about the identified weaknesses and the actions being taken to address them. The Internal Audit plan for 2016/17 was agreed by the Audit, Risk and Scrutiny Committee on 9 March 2016. Some 2016/17 audits have been deferred with the agreement of the Audit, Risk and Scrutiny Committee. A total of 31 audits were carried out and reported with 305 recommendations made of which 5 were classed as major at corporate level and 9 major at a service level/within the audited area with the remainder either significant within the audited area or important within the audited area. Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to each Audit, Risk and Scrutiny Committee.

Of the 305 recommendations 265 were due to be implemented by 31 March 2017. Of these 80 (30.2%) were implemented on time. Of the remainder 120 (45.3%) were implemented by 31 March 2017 but were implemented late, and 65 (24.5%) remained outstanding at 31 March 2017. In addition 121 actions from 2015/16 reports were due to be implemented in 2016/17 or had been due to be implemented by 31 March 2016 but remained outstanding at that time. Of these 22 (18.2%) were implemented on time. Of the remainder 69 (57.0%) were implemented by 31 March 2017 but were implemented late, and 30 (24.8%) remained outstanding at 31 March 2017.

The Audit, Risk and Scrutiny Committee recognised the benefits of self-evaluation, using tools such as CIPFA's "A toolkit for Local Authority Audit Committees" and agreed at its meeting in February 2014 to do an annual self-evaluation. The results for 2015/16 were reported in June 2016 with a number of recommended actions agreed that will develop the Committee and the Council. For the period 16/17, it was agreed not to complete the self-evaluation on the basis that the Good Governance Institute and CIPFA had already evaluated the Committee and its governance leading to approved improvement actions.

The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board (the Audit, Risk and Scrutiny Committee) on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP). No internal self-assessment has been completed for 2016/17 as an external review is in the process of being completed by KPMG. The outcome of this review, identifying any areas for development, will be reported to the Audit, Risk and Scrutiny Committee in due course.

2.3.3 External Scrutiny

The External Auditor, KPMG, reports regularly to the Audit, Risk and Scrutiny Committee and their reports cover the range of year end financial audits that are required at a local level and with a national perspective, together with updates on outstanding audit recommendations.

2.4 Review of Effectiveness

The input from GGI and CIPFA, as well as the creation of a dedicated programme of governance improvements, enabled a comprehensive review of the effectiveness of the Council's governance activity to take place, overseen by the Governance Review Programme Board, Governance Reference Group and Corporate Management Team.

Table A below summarises governance activity against the Local Code requirements for the period 1 April 2016 to 31 March 2017. This includes a self evaluation of effectiveness as at 31 March 2017 as well as CIPFA's interim assessment against the Governance Mark of Excellence as at 31 December 2016, and so provides assurance around our systems of internal controls.

The scoring systems are explained below:

Self evaluation scoring system	CIPFA 'Excellence' scoring system	
4 – Exceeds the requirements of the Local Code	Fully achieved	Over 80%
3 – Fully compliant with Local Code requirements	Substantially achieved	66%-80%
2 – Partially compliant with Local Code requirements	Partially achieved	50%-65%
1 – Not compliant with Local Code requirements	Not achieved	Below 50%

Note: the self evaluation scoring was applied across a wide range of measures against each element of the local code of governance. Table A below reports a summary of these and the average overall score against each of the CIPFA Principles of Good Governance.

Table A

CIPFA Principles of Good Governance	Summary of evidence of assurance 2016/17	Self Evaluation of Effectiveness 31 st March 2017	CIPFA Evaluation of Effectiveness 31 st December 2016
A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	<p>We continue to use and develop our staff appraisal and induction, employee opinion survey, elected member training, schemes of delegation, Committee standing orders, information governance, registers of interests. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ Member-Officer Relations Protocol adopted ➤ A Third Tier Network was established ➤ New Procurement Regulations adopted and Financial Regulations revised accordingly ➤ Strategic Response to Fraud, Bribery and Corruption implemented ➤ All service and core policies collated and categorised and incorporated into the e-induction process ➤ Register of Interests for Chief Officers introduced 	2.4	67%
B - Ensuring openness and comprehensive stakeholder engagement	<p>We continue to use and develop community planning, local decision making and community engagement, complaints handling procedures, reporting of Ombudsman decisions to Audit, Risk and Scrutiny Committee, governance arrangements for 3rd parties, ALEO's and Trusts. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ Employee Opinion Survey (EOS) achieved improved response rate of 48% (21% in 2014) ➤ A 'Customer Service Charter and Standards' was launched ➤ A new Local Outcome Improvement Plan (LOIP) was adopted ➤ Three new Locality Plans adopted for communities experiencing poorer outcomes ➤ Participatory Budgeting (PB) city wide steering group was created ➤ Three Priority Setting events took place in the Regeneration Areas 	2.7	78%
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ➤ The Council's Strategic Business Plan was agreed in February 2017 along with the 2017/18 budget, linking outcomes to available resources, the LOIP and Service Plans ➤ A consistent improvement methodology was introduced to support the delivery of Service Improvement Plans ➤ In line with its financing strategy for the capital programme, the Council agreed to obtain a credit rating and issued Bonds listed on the London Stock Exchange. In doing this the Council considered a forecast of its financial position over a 35 year period ➤ Treasury Management Policy and Strategy updated and approved in March 2017 	3.0	89%
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	<p>We continue to use and develop our budget monitoring processes and reporting, ALEO governance arrangements, risk management, value for money. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ Annual strategic and operational planning cycle was put in place ➤ A single corporate "Model for Improvement" was adopted ➤ A corporate Performance Management Framework was introduced ➤ The effectiveness of the risk management system was reviewed by the Good Governance Institute 	2.3	70%

CIPFA Principles of Good Governance	Summary of evidence of assurance 2016/17	Self Evaluation of Effectiveness 31 st March 2017	CIPFA Evaluation of Effectiveness 31 st December 2016
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	<p>We continue to use and develop our workforce planning, schemes of delegation, Committee terms of reference, elected member and staff induction and development. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ Member-Officer Relations Protocol adopted ➤ New software purchased to facilitate the introduction of Paperlight Committees ➤ Elected member induction and professional development framework redesigned. ➤ The Aberdeen Health and Social Care Partnership reached agreement with social care providers to adopt the living wage as a minimum standard for the sector's employment rewards 	2.2	76%
F - Managing risk and performance through robust internal control and strong public financial management	<p>We continue to use and develop our arrangements for performance management, budget monitoring, risk management, ALEO governance, Trusts, business continuity, health and safety, internal and external audit, information governance, Following the Public Pound, scheme of delegation, Financial Regulations, Fraud, Bribery and Corruption policy. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ The Audit, Risk and Scrutiny Committee received report on scrutiny of its performance ➤ Risk management system reviewed by the Good Governance Institute ➤ A cross-service programme of work was put in place to ensure full compliance with the requirements of the Council's Bond issue ➤ Organisational Resilience self-assessment tool developed ➤ Review of Health and Safety Assurance carried out ➤ Internal Audit plan agreed by the Audit, Risk and Scrutiny Committee ➤ Internal Audit produced Internal Financial Control Statement ➤ During 2016/17, Internal Audit reported on Following the Public Pound, Budget Monitoring, and Data Protection compliance across the Council ➤ The Council commissioned a comprehensive assurance mapping process, which will include development of a risk appetite statement ➤ A full review of the structural integrity of the 10 school buildings which were constructed using the PPP methods was undertaken and found no structural defect ➤ In 2016/17 ACC subscribed to a number of CIPFA's benchmarking clubs 	2.5	59%
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	<p>We continue to use and develop our arrangements for corporate management, Committee management, publication of the Council's annual accounts, annual budget setting, budget monitoring, ALEO governance, internal and external audit, external scrutiny, ombudsman reports. Specific highlights this year:</p> <ul style="list-style-type: none"> ➤ The annual budget setting process for 2017/18 was led by ECMT. The budget report format reflected a number of changes to take account of the reporting requirements of the London Stock Exchange following the issue of listed Bonds ➤ Assessment of financial management across the Council against the CIPFA FM model ➤ Review of operation of ALEO Governance Hubs ➤ Participation in the Local Government Benchmarking Framework 	2.9	81%

Section 3 Monitoring Implementation and Future Developments

Next year, up to 31 March 2018 will see progress continue with the review of the Council's governance arrangements and a number of key activities will be completed. This will be supported by the Change Delivery Board, which will oversee the Governance Review Programme and provide a structure and support for transformational change. An action plan is in place to take forward areas of development identified by CIPFA, who will assess the Council for the Governance Mark of Excellence, if not during 2017/18 then shortly thereafter. The table below highlights the *primary* actions planned in 2017/18.

Table B

CIPFA Principle of Good Governance	Primary Actions Planned 2017/18
<p>A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<ul style="list-style-type: none"> ➤ Member-Officer Relations Protocol - training for elected members and officers to be rolled out as part of member induction and Convener training. Will also be kept under review. ➤ Bond Financing Strategy – Implications for the Council - the cross-service programme of work to ensure full compliance with the requirements of trading on the London Stock Exchange will continue. A staff training programme and the induction of elected members will cover the implications of issuing Bonds on the LSE, the need to maintain the credit rating and guidance around Insider Lists. ➤ Integration Joint Board – Proper Officer to be appointed. ➤ Review of Committee Structure and Operating Model at management level. ➤ Approval of a new Scheme of Governance including Delegated Powers and Committee Terms of Reference. ➤ Tool for committees to review their own effectiveness, against their Terms of Reference. To be developed alongside SOLAR colleagues. This will also include the approval of a Proper Officer Register listing statutory appointees and proper officers within the Council for legislative purposes. ➤ Standing Orders to be covered as part of elected member induction and a training approach for officers on the primary changes to be rolled out. ➤ Employee Opinion Survey Action Plan will be overseen by group of four ECMT members – priority actions in the areas of visibility, vision, trust and recognition. ➤ Digital platform for corporate policies to be implemented to improve compliance and monitoring of relevance of policies. Links with recruitment will continue to be explored to ensure that new staff are clear around expectations, and with PR&D to reinforce to existing staff. ➤ Review of staff appeals process. ➤ Behavioural framework – work will continue to develop this and to focus on acceptable and unacceptable behaviours as identified by the Third Tier Network. This is being supported by the Creating the Environment for Transformational Change Board which will oversee progress, and report directly into CMT. ➤ Review of operation of Procurement Regulations after one full year. ➤ Preparation for implementation of the General Data Protection Regulations 2018.

CIPFA Principle of Good Governance	Primary Actions Planned 2017/18
B - Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> ➤ Achievement of the improvement outcomes in the Service Improvement Plans will be monitored through Directorate management teams, 121s, CMT dashboard and through quarterly Committee performance reports which should match the Plans. The Performance, Risk and Improvement Programme Board will review the process for producing Service Improvement Plans in 2017/18. ➤ Third Party Governance - work on risks and assurance regarding external funding sources to begin shortly and approval and implementation of ALEO Assurance model. ➤ Complaints - In addition, and in line with our corporate Being Digital strategy we will migrating the process onto our digital platform during 2017 which will enable easier access for customers, enhanced and slicker approach to handling complaints, as well as embedding a customer focussed culture within the organisation which values feedback and organisational learning from the voice of the customer. ➤ Engagement with staff on governance activities will be achieved through a redesign on the internal Zone pages. ➤ Evaluate consultation arrangements with trade unions to achieve consistency and quality. ➤ Introduction of a procedure for Participation Requests under the Empowerment Act. ➤ Review of Council's Consultation Arrangements to improve both the organisational value, quality and governance of external and statutory consultations through an agreed process. ➤ Customer Service Charter and Standards - Further internal cascades will continue during 2017 prior to an external public launch.
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ➤ The Change Delivery Board will support the delivery of five transformational programmes of work and make key decisions. Each programme will be led by a programme sponsor and reporting will be via highlight and exception reporting: <ul style="list-style-type: none"> • Enterprising Council: Optimising spend through third parties, better management of our supply chain, and investigating alternative service delivery models which provide the best outcomes for our customers while developing commercial opportunities to generate income. • Operational Excellence: Creating a streamlined support function for all frontline services which is efficient, reduces bureaucracy and maximises the use of technology. • Performance & Risk Management: Use information and data to inform decision making, manage risk and continuously improve the services we deliver to our customers. This will include evaluating the process for producing and implementing Service Improvement Plans based on feedback collected by the Third Tier Network. • Governance Review: Delivering an externally accredited governance structure that is compliant with the CIPFA Principles of Good Governance and to provide an exemplar for all local authorities across the country. • Bond Governance: The Bond Governance Programme will design and implement the financial and regulatory controls we need to protect our credit rating and to comply with stock market regulations. ➤ Continuation of whole system approach to define clear improvement outcomes.

CIPFA Principle of Good Governance	Primary Actions Planned 2017/18
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	<ul style="list-style-type: none"> ➤ The Terms of Reference for each Committee will be revised to include reference to an annual report of the effectiveness of the Committee's performance against its remit which will identify areas for improvement / intervention. ➤ Implement revised model for ALEO Governance Hub to focus on assurance rather than scrutiny. ➤ During 2017/18 monitoring arrangements will be further refined in order to meet the requirements of the London Stock Exchange and quarterly reports will be developed to include full balance sheet reporting. This process provides up to date financial forecasts to enable senior officers and members to take decisions to manage the Council's financial position. ➤ Approval and implementation of the Policy on the Appointment of Elected Members to Outside Bodies. ➤ Link ECMT sessions with those of the Third Tier Network, and challenge the third tier to reach to fourth tier and below to strengthen the golden thread. This will include the budget setting process, service planning and achieving our cultural aspirations set out in Shaping Aberdeen.
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> ➤ Governance training programme for officers to be rolled out at all levels of the organisation covering all key governance documents, processes and systems. This will include development of the governance strand of a Leadership Programme for managers to raise the profile of governance amongst senior managers. ➤ Workforce Planning - ECMT engagement required to connect workforce planning with Council priorities, improvement plans and budget. ➤ Finalise and obtain approval for the Scheme of Governance so that Chief Officers are clear about powers delegated to them – to be incorporated within governance training programme to ensure understanding and compliance. ➤ Elected Member induction and development programme to be completed "first 100 days". On-going feedback to be sought from elected members. ➤ Third Tier Network will focus on rolling out the four priority actions from the Employee Opinion Survey through a robust action plan. The schedule of meetings of the Network will correspond with ECMT to ensure consistent messages are being delivered. The Network will continue to be challenged to ensure that these messages are delivered to 4th tier and below. ➤ Performance Review and Development – will be reviewed and overseen by CMT. Purpose will be to link with findings of Employee Opinion Survey, to improve compliance within areas of the Council which are not completing PR&D and to review the quality of objectives set. ➤ Training to be delivered on holding crucial conversations and crucial and equipping staff with the skills and confidence to have conversations to hold people to account for delivering outcomes.

CIPFA Principle of Good Governance	Primary Actions Planned 2017/18
F - Managing risk and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> ➤ The Corporate Investigation Team's Annual Report for 2016/17, detailing the Council's policy and strategic response to Fraud, Bribery and Corruption, along with its business plan for 2017/18, will be presented to Audit, Risk & Scrutiny Committee in June 2017. ➤ Internal Audit's Annual Report and Internal Financial Control Statement for 2016/17 will be presented to Audit, Risk & Scrutiny Committee in June 2017. ➤ A review of the Common Good Fund will be conducted. ➤ Continuing implementation of the Risk Management Action Plan in response to Good Governance Institute recommendations, including the development of an assurance mapping framework. ➤ Organisational Resilience Project Plan to be implemented. ➤ Implementation and oversight of Bond Governance Project Plan. ➤ Business Continuity Plans for critical functions in other services of the Council will be reviewed and progress overseen by Senior Management Teams. ➤ Completion of Review of Financial Management by CIPFA. ➤ Introduction of a system solution for health and safety audits. ➤ Health and Safety Improvement Plans for each service area.
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"> ➤ Implementation of new Committee Management Procedures including training and development, monitoring and review and improved compliance. ➤ Programme of improvement for Internal Audit function.

Section 4 Significant Governance Issues Action Plan

The Annual Governance Statement from 2015/16 identified six significant governance issues and in reviewing the progress made by officers of these actions, 4 of these have progressed sufficiently to be removed and 2 remain outstanding as at 31 March 2017. An additional 10 issues have been added and actions to address these are outlined.

While the review of effectiveness allows the Council to place reasonable reliance on the Council's, and its Group's, systems of internal control, the Council continues to address control weaknesses identified during audits and other significant matters arising as set out below:

Table C

Issue Ref.	Issue Description	Source of Evidence	Action
<i>Outstanding Issues from 2015/16</i>			
1	Investigation Required: An investigation has been instructed following the allegations made regarding baby and adult cremations at Hazlehead Crematorium.	Self-evaluation 2013/14.	The national cremation investigation report was published on 27 June 2016 and a subsequent report on Aberdeen's response to the findings was presented to Full Council on 17 August 2016. All of the report's findings were accepted and actions to implement recommendations were complete, with the exception of those which were subject to new legislation. A number of claims are now in the hands of the Council's insurers.
2	Craft Workers Terms and Conditions: To review the completion of timesheets and compliance with agreed terms and conditions.	Internal Audit Report 2015/16	Full implementation of the recommendations as agreed in the internal audit report, which is dependent upon finalising a renewed craft agreement. Discussions with trade workers and unions are ongoing.
<i>New Issues during 2016/17</i>			
3	Agency Staff: To ensure that agency staff are being appointed through appropriate channels and that arrangements for their induction are robust.	Internal Audit Report 2016/17	To fully implement the recommendations as agreed in the internal audit report.
4	Compliance with Procurement Related Legislation and Financial Regulations 2016/17 audit: To undertake a high level review of the Council's spend with a sample of suppliers to obtain assurance that the Council is complying with Legislation and the Council's internal governance arrangements and could, therefore, demonstrate that Value for Money has been achieved.	Internal Audit Report 2016/17	To fully implement the recommendations as agreed in the internal audit report.
5	Limitations on scope of Internal Audit work: The internal audit statement identifies a number of reports in which limitations were placed upon the audit work.	Internal Audit statement 2016/17	The Interim Depute Chief Executive (Director of Corporate Governance) discussed the importance of responding to the Internal Auditor with Senior Management to ensure information is presented in a timeous manner going forward. A review to be carried out of relevant access requirements to personal information held in the Carefirst system.

Issue Ref.	Issue Description	Source of Evidence	Action
6	<p>Major capital investment in councils: follow-up</p> <p>Assessed to what extent councils have improved performance in managing capital investment programmes and projects since a 2013 report from Audit Scotland which focused on major capital projects over £5 million and found weaknesses in early estimates of costs and timetables as well as weak processes for developing and using business cases and in reporting monitoring information to elected members.</p>	Audit Scotland national report	To fully implement the actions and recommendations noted in the external audit report to Council and the action plans developed in response to this report, matters relating to specific investment projects as considered by the Audit, Risk & Scrutiny Committee in February 2017, and a full management review of capital plan delivery, which has subsequently been undertaken.
7	<p>Failure to comply with the Council's decision making processes, including:</p> <ul style="list-style-type: none"> • Compliance with the Council's committee management procedures and in particular, meeting relevant deadlines; and; • Decision making without required authority (e.g. through Scheme of Delegation). 	<p>Corporate Governance Scorecard.</p> <p>Self-Evaluation 2016/2017</p>	<p>A new set of Committee Management Procedures has been implemented and performance will be monitored by the Corporate Management Team.</p> <p>A new Scheme of Governance which will set out the Council's decision making processes will be implemented.</p> <p>A Governance Training Programme will be developed.</p>
8	<p>Bond Financing Strategy: Implications for the Council – A report to Council in December 2016 summarised the implications of the award of a credit rating by Moody's Investor Services and the bond issuance by the Council.</p> <p>The Bonds are admitted to trading on the London Stock Exchange (LSE)</p> <p>The issue of the bond places a financial commitment on the Council until 2054. The purpose of the bond was to put in place capital financing for the Council's capital programmes.</p>	Self-evaluation 2016/17	<p>To fully comply with the requirements of the LSE. Key elements of this commitment are to:</p> <ul style="list-style-type: none"> • act in a manner capable of maintaining the Council's Credit Rating • comply with the Market Abuse Regulations, the Disclosure and Transparency Rules, the Listing Rules and the continuing obligations set out in the LSE Admission and Disclosure Standards • review the Council's financial management systems, processes and routines • align our governance systems to the requirements and expectations of holding and maintaining a suitable credit rating and being an Issuer of Bonds • develop and maintain Insider List(s) <p>The Council will also pilot an Economic Policy Panel to operate as an independent panel of experts that could comment on the performance of the Aberdeen economy, the outlook for the economy in relation to global economies and financial markets and the sustainability of the Council's finances.</p>
9	Transformation Programme: Risks inherent in the extensive programme of transformation and commercialisation being undertaken.	Self-evaluation 2016/17	A Governance framework and management structure has been put in place for the Transformation Delivery Board. Risks to be monitored throughout lifetime of the project.
10	Review of risk management system	Self-evaluation 2016/17	To fully implement the action plan agreed by the Audit, Risk & Scrutiny Committee. The project forms a part of the Performance, Risk and Improvement programme of work which reports into the Transformation Delivery Board. Key pieces of work include development of an assurance framework and a risk appetite statement.

Issue Ref.	Issue Description	Source of Evidence	Action
11	Scottish Child Abuse Inquiry: Potentially, as a result of the Inquiry and subsequent potential legislation regarding the Limitation (Childhood Abuse) Bill, the council could face an unquantified number of cases of child abuse.	Self-evaluation 2016/17	A Governance group has been appointed, weekly monitoring of the position is in place and an external QC has been appointed for independent legal advice.
12	Kingsmead Home: A nursing home operated by a private sector provider that was experiencing operational difficulties. Report required in terms of a review of contract management and service delivery processes and how this information is escalated.	Self-evaluation 2016/17	Using emergency powers the Council has assumed responsibility for the operation of the home on a temporary basis, pending determination as to how services to meet the needs of the residents may best be provided in the future. The Integration Joint Board has commissioned a review from the Good Governance Institute.

Section 5 Level of Assurance Obtained

The Council has undertaken a self-evaluation of its Local Code of Corporate Governance as at 31 March 2017 and has also received an interim governance assessment from CIPFA, dated 31 December 2016. Together these demonstrate that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council and its systems of governance, although further work is required to build our assurance framework and that will bring about further improvements to our governance structure.

These reviews demonstrate sufficient evidence that the Code of Corporate Governance operates effectively, and provide a clear pathway for the enhancement of our governance arrangements over the coming year. We are satisfied that the programme of improvement actions will help to raise the standard of governance towards the level required to achieve CIPFA's Mark of Excellence in governance, and to provide assurance to our external auditors and other bodies with a role to play in evaluating our structures. We are also satisfied that their implementation and operation will be monitored closely as part of the next annual review.

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

on behalf of Aberdeen City Council

26 September 2017

Remuneration Report

The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of their Annual Accounts.

All information disclosed in Tables 1 to 9 in this report will be audited by KPMG. The other sections of the Remuneration Report will be reviewed by KPMG to ensure that they are consistent with the financial statements.

Remuneration:

The remuneration of councillors is regulated by the Local Governance (Scotland) Act (Remuneration) Amendment Regulations 2016 (SSI No. 2016/6) which amended the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2015 (SSI No. 2015/7). The Regulations provide for the grading of councillors for the purpose of remuneration arrangements, as either the Leader of the Council, the Lord Provost, Senior Councillor or Councillor. The Leader of the Council and the Lord Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the council's political management structure.

The salary that is paid to the Leader of the Council is set out in the Regulations. For 2016/17, the salary of the Leader of Aberdeen City Council is £39,418. The Regulations permit the Council to remunerate one Lord Provost and sets out the maximum salary that may be paid. Council policy is to pay at the national maximum, £29,564.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £441,337. The Council can exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The maximum number of Senior Councillors that the Council can have is 19. Council policy is to pay each of the five principal Committee Conveners 75 per cent of the total yearly amount payable to the Leader of the Council, £29,564, with the remaining Senior Councillors receiving 75 per cent of that sum, £22,173.

In 2016/17, Aberdeen City Council had 17 Senior Councillor posts. The salary and allowances paid to them totalled £412,160 which was below the maximum allowed.

The Regulations also permit the Council to pay contributions covering other payments, as required, to the Local Government Pension Scheme in respect of those Councillors who elect to become councillor members of the pension scheme.

The salary of senior employees is set by reference to local arrangements. During the recruitment of the Chief Executive in 2008/09, the Council agreed to pay the Chief Executive a salary based on local conditions at that time. This pay base line has not changed on any subsequent Chief Executive appointments.

The salaries of the Directors and Heads of Service are based on Aberdeen City Council's local job evaluation model and applied in conjunction with the national Chief Officer spinal column (Salary Scale) points. Service Directors are based on Chief Officer spinal column point 53. The City Centre Director is paid based on spinal column point 47. The Chief Social Worker and the Heads of Finance and Legal and Democratic Services are paid based on Chief Officer spinal column point 36, and all other Heads of Service are paid based on Chief Officer spinal column point 34.

Aberdeen City Council takes part in the setting of the remuneration of its subsidiaries, Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd only in so far as it is represented on the Board of Directors by elected members.

Remuneration Disclosures:

Table 1: In bands of £5,000 the number of people who have received actual salary remuneration of greater than £50,000. This includes, where applicable, head teachers and other senior teaching staff.

Table 2: Details of total remuneration paid to the Council's Councillors. The annual return of Councillors' salaries and expenses for 2016/17 is available to any member of the public on the Council's website at www.aberdeencity.gov.uk Follow the links through the 'Council and Government' page, clicking on 'see Councillors Allowances and Expenses' followed by 'Councillors Allowances and Expenses 2016-2017'.

Table 3: Details of exit packages.

Table 4: Details of remuneration paid to the Council's Senior Councillors. The 'Other Expenses' shown include the cost of travel and subsistence incurred or booked on behalf of Councillors travelling on Council business.

Table 5: Details of remuneration paid to Senior Employees of the Council.

Table 6: Details of remuneration paid to the Senior Employees of the Council's subsidiary bodies i.e. Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd.

Table 1: Remuneration Bands

Remuneration Band	Number of Employees	
	2015/16	2016/17
£50,000 - £54,999	115	149
£55,000 - £59,999	48	45
£60,000 - £64,999	19	17
£65,000 - £69,999	4	5
£70,000 - £74,999	5	5
£75,000 - £79,999	7	5
£80,000 - £84,999	5	11
£85,000 - £89,999	7	2
£90,000 - £94,999	1	-
£95,000 - £104,999	-	-
£105,000 - £109,999	1	1
£110,000 - £114,999	3	-
£115,000 - £119,999	-	2
£120,000 - £124,999	1	-
£125,000 - £139,999	-	-
£140,000 - £144,999	-	1
£145,000 - £149,999	1	-
£150,000 - £154,999	-	1
Total	217	244

Table 3: Exit Packages

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Exit Packages Approved		Total Cost of Exit Packages by Cost Band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
					£'000	£'000
£0 - £19,999	-	-	12	3	71	22
£20,000 - £39,999	-	-	3	4	93	127
£40,000 - £59,999	-	-	5	-	242	-
£60,000 - £79,999	-	-	-	2	-	127
£80,000 - £99,999	-	-	1	-	81	-
£100,000 - £149,999	-	-	-	1	-	142
	-	-	21	10	487	418

Table 2: Total Remuneration Paid to Councillors

	2015/16 £	2016/17 £
Salaries	865,268	880,977
Allowances	-	-
Expenses	43,677	71,003
Total	908,945	951,980

Table 4: Remuneration of Senior Councillors

2015/16	2016/17						Notes
	Councillor Name	Responsibility	Salary, Fees and Allowances £	Non-Cash Expenses & Benefits-In-Kind £	Other Expenses £	Total Remuneration £	
40,300	Jennifer Laing	Leader of the Council	39,418	169	1,039	40,626	
29,373	Marie Boulton	Depute Council Leader	29,564	102	893	30,559	1
34,758	George Adam	Lord Provost	29,564	479	12,079	42,122	
34,268	John Reynolds	Depute Provost	22,173	352	13,140	35,665	
22,175	Yvonne Allan	Convener, Appeals	22,173	104	-	22,277	
29,716	Neil Cooney	Convener, Communities, Housing and Infrastructure	29,564	782	83	30,429	
31,045	Barney Crockett	Convener, Pensions	22,173	456	19,589	42,218	
21,221	Alan Donnelly	Vice Convener, Finance, Policy and Resources (from 12 May 2016)	22,173	144	5,698	28,015	2
16,857	Andrew Finlayson	Vice Convener, Planning Development Management	16,893	99	-	16,992	
-	Stephen Flynn	Convener, Audit, Risk and Scrutiny (from 12 May 2016)	24,943	102	-	25,045	
22,859	Gordon Graham	Vice Convener, Communities, Housing and Infrastructure	22,173	911	-	23,084	
22,106	Ross Grant	Regeneration and Transport Spokesperson	22,173	132	-	22,305	
22,973	Len Ironside CBE	NHS/Social Care Integration Joint Board & Social Care Spokesperson	22,173	229	563	22,965	3
11,768	Lesley Dunbar	Convener, Shadow Integrated Joint Board (until 7 October 2015)	-	-	-	-	
24,715	Jackie Dunbar	Convener, Audit, Risk and Scrutiny Committee (until 11 May 2016)	3,155	13	-	3,168	
2,871	Callum McCaig	Convener, Audit, Risk and Scrutiny Committee (until 7 May 2015)	-	-	-	-	
22,928	Ramsay Milne	Convener, Planning Development Management	25,840	165	1,367	27,372	
22,123	Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure	22,173	116	1,401	23,690	
29,626	Angela Taylor	Convener, Education and Children's Services	29,564	158	63	29,785	
22,053	Ross Thomson	Vice Convener, Finance, Policy and Resources (until 11 May 2016)	2,516	12	-	2,528	
29,864	William Young	Convener, Finance, Policy and Resources	29,564	134	970	30,668	
21,133	Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	21,000	81	-	21,081	
22,098	Scott Carle	Vice Convener, Education and Children's Services (from 12 May 2016)	22,173	127	-	22,300	4
536,830	Total		481,142	4,867	56,885	542,894	

Table 4: Notes

Note 1:	Councillor Boulton was also Convener, Licensing Board.
Note 2:	Prior to his appointment as Vice Convener, Finance, Policy and Resources Councillor Donnelly was Vice Convener, Education and Children's Services and is also Convener, Petitions. As such a full year disclosure of remuneration has been made.
Note 3:	Prior to his appointment as NHS/Social Care Integration Joint Board & Social Care Spokesperson Councillor Ironside was Convener, Integrated Joint Board. As such a full year disclosure of remuneration has been made.
Note 4:	Prior to his appointment as Vice Convener Councillor Carle was Convener, Licensing Committee. Councillor Carle is also the Convener, Licensing Committee and the Vice Convener, Petitions. As such a full year disclosure of remuneration has been made.

Table 5: Remuneration of Senior Employees of the Council

2015/16	2015/16		2016/17	2016/17				
Full Time Equivalent £	Total Remuneration £	Name	Post Title	Full Time Equivalent £	Salary, Fees and Allowances £	Compensation for Loss of Employment £	Total Remuneration* £	Returning Officer Fee note 1 £
146,856	149,469	Angela Scott	Chief Executive	148,324	153,351	-	153,351	5,026
113,716	113,916	Gayle Gorman	Depute Chief Executive (Director of Education and Children's Services)	114,853	115,753	-	115,753	-
113,716	10,976	Ewan Sutherland	Acting Director of Corporate Governance (until 30 April 2015)	-	-	-	-	-
113,716	113,916	Pete Leonard	Depute Chief Executive (Director of Communities, Housing and Infrastructure)	114,853	109,428	-	109,428	-
104,061	15,099	Marc Cole	City Centre Director	104,061	116,846	-	116,846	-
83,457	85,776	Bernadette Oxley	Chief Social Work Officer	84,292	84,292	-	84,292	-
113,716	76,052	Elizabeth Taylor	Transitioning Director (until 28 August 2015)	-	-	-	-	-
113,716	113,716	Gordon McIntosh	Transitioning Director (until 10 August 2016)	114,853	42,897	30,890	73,787	-
83,457	92,609	Steven Whyte	Head of Finance (s.95 Officer)	84,292	89,692	-	89,692	-
83,457	65,381	Fraser Bell	Head of Legal and Democratic Services (Monitoring Officer)	84,292	84,792	-	84,792	-
83,457	28,343	Craig Innes	Head of Procurement (Monitoring Officer) (from 7 April 2015 until 28 July 2015)	-	-	-	-	-
83,457	20,991	Jane MacEachran	Head of Legal and Democratic Services (Monitoring Officer) (until 6 April 2015)	-	-	-	-	-
79,898	82,349	Ciaran Monaghan	Head of Service, Office of Chief Executive	80,697	85,948	-	85,948	3,451
79,898	79,898	Takki Sulaiman	Head of Communications and Promotion	80,697	80,697	63,488	144,185	-
	1,048,491	TOTAL			963,696	94,378	1,058,074	
		*	Some senior employees have carried out duties at Parliamentary Elections held during the year. Remuneration above includes any payment received for these duties.					
	Note 1:	The total remuneration includes Returning Officer (RO) fees. An RO is the person responsible for administering a parliamentary election. These duties are separate from any duties undertaken as a local government employee. The total RO fee is regulated by The Scottish Parliament Elections (Returning Officer Fees and Charges) Regulations 2016 (SSI 2016/10). The RO can appoint one or more persons to discharge any or all of the functions of the post but cannot delegate personal responsibility for delivering the election. Angela Scott is the RO for Aberdeen City Council and during 16/17 she delegated some of the RO duties/fees to the Head of Service, Office of Chief Executive and 2 other non senior employees.						
	Note 2:	During 2016/17, the posts of Director of Corporate Governance and Director of Communities, Housing and Infrastructure posts were vacant for the full or part of the year. The Council commissioned Penna to provide support to fulfil these roles at a total cost of £298,761.						

The senior employees included in Table 5 include any Council employee:

- Who has responsibility for management of the Council to the extent that the person has power to direct or control the major activities of the Council (including activities involving the expenditure of money), during the year to which the Report relates whether solely or collectively with other persons;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration, including any remuneration from a Council subsidiary body, is £150,000 or more.

Table 6: Remuneration – the Council’s Subsidiary Bodies

2015/16		2016/17					Note
Total Remuneration £	Name	Post Title	Salary, Fees and Allowances £	Compensation for Loss of Office £	Benefits Other Than in Cash £	Total Remuneration £	
100,119	Graeme Cumming	Interim Managing Director Aberdeen Exhibition & Conference Centre	98,899	65,002	1,193	165,094	1
90,208	Alistair Robertson	Managing Director Sport Aberdeen Ltd	92,575	-	-	92,575	
94,136	Sandra Ross	Managing Director Bon Accord Support Services Ltd	95,078	-	-	95,078	
284,463	Total		286,552	65,002	1,193	352,747	

Note 1: AECC Ltd ceased to be the operators of the Aberdeen Exhibition and Conference Centre on 31 March 2017. As a result, AECC Ltd will be wound up during 2017/18.

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). Aberdeen City Council is a member of the North East Scotland Pension Fund (NESPF).

Councillors' pension benefits up to 31 March 2015 are based on career average pay. The Councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

From 1 April 2015 the pension is calculated as 1/49th of pensionable pay for each year to 31 March. This is then revalued by the appropriate factor on 1 April and carried forward into the next year.

For local government employees, this is a final salary pension scheme for all service up until 31 March 2015. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. From 1 April 2015 it is a CARE scheme where the pension is calculated at 1/49th of the pensionable pay for the year. This is then revalued by the appropriate factor on 1 April and carried forward into the next year.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership.

The tiers and members contribution rates are as follows:

Pensionable pay	Contribution rate 2015/16	Contribution rate 2016/17
On earnings up to and including £20,500	5.5%	5.5%
On earnings above £20,500 and up to £25,000	7.25%	7.25%
On earnings above £25,000 and up to £34,400	8.5%	8.5%
On earnings above £34,400 and up to £45,800	9.5%	9.5%
On earnings above £45,800	12%	12%

Previously, if a person worked part-time, their contribution rate was worked out on the whole-time pay rate for the job with actual contributions paid on actual pay earned. From April 2015 the contribution rate for part timers is worked out on their actual pay and not the whole-time pay rate for the job.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) their annual pension for a lump sum payment up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of pensionable pay (from 2009 to 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without a reduction on account of its payment at that age; without exercising any option to commute their pension entitlement into a lump sum and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not necessarily just their current appointment.

The scheme's normal retirement age for both Councillors and employees is their New State Pension Age.

Pension Disclosures:

Table 7: Details of pension contributions made by the Council to the North East Scotland Pension Fund (NESPF) on behalf of Senior Councillors, and their individual pension entitlements as at 31 March 2017.

Table 8: Details of pension contributions made by the Council to the NESPF on behalf of Senior Employees of the Council, and their individual pension entitlements as at 31 March 2017.

Table 9: Details of pension contributions made by the Council's subsidiary bodies i.e. Aberdeen Exhibition and Conference Centre Ltd, Sport Aberdeen Ltd and Bon Accord Support Services Ltd, on behalf of their Senior Employees.

Table 7: Pension Benefits – Senior Councillors

Councillor Name	Responsibility	In-year Pension Contributions		Accrued Pension Benefits		
		For year to 31 March 2016	For year to 31 March 2017		As at 31 March 2017	Difference from 31 March 2016
		£	£		£'000	£'000
Jennifer Laing	Leader of the Council	7,532	7,608	Pension	5	1
				Lump Sum	2	-
Marie Boulton	Depute Council Leader	5,649	5,706	Pension	4	1
				Lump Sum	2	-
George Adam	Lord Provost	5,649	5,706	Pension	2	1
John Reynolds	Depute Provost	4,237	4,279	Pension	5	1
				Lump Sum	2	-
Yvonne Allan	Convener, Appeals	4,237	4,279	Pension	5	1
				Lump Sum	2	-
Neil Cooney	Convener, Communities, Housing and Infrastructure	5,649	5,706	Pension	7	2
				Lump Sum	2	-
Barney Crockett	Convener, Pensions	4,237	4,279	Pension	4	-
				Lump Sum	2	-
Alan Donnelly	Vice Convener, Finance, Policy and Resources (from 12 May 2016)	3,714	4,279	Pension	5	-
				Lump Sum	9	-
Andrew Finlayson	Vice Convener, Planning Development	3,228	-	Pension	-	(1)
Stephen Flynn	Convener, Audit, Risk and Scrutiny (from 12 May 2016)	-	4,814	Pension	1	1
Gordon Graham	Vice Convener, Communities, Housing and Infrastructure	4,237	4,279	Pension	4	1
				Lump Sum	1	-
Ross Grant	Regeneration and Transport Spokesperson	4,237	4,279	Pension	2	-
Lesley Dunbar	Convener, Shadow Integrated Joint Board (until 7 October 2015)	2,200	-	Pension	-	(1)
Jackie Dunbar	Convener, Audit, Risk and Scrutiny Committee (until 11 May 2016)	4,752	609	Pension	4	1
				Lump Sum	2	-
Callum McCaig	Convener, Audit, Risk and Scrutiny Committee (until 7 May 2015)	548	-	Pension	-	(3)
				Lump Sum	-	(1)
Ramsay Milne	Convener, Planning Development Management	4,237	4,279	Pension	2	1
Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure	4,237	4,279	Pension	3	1
Angela Taylor	Convener, Education and Children's Services	5,649	5,706	Pension	2	-
Ross Thomson	Vice Convener, Finance, Policy and Resources (until 11 May 2016)	4,237	486	Pension	2	-
William Young	Convener, Finance, Policy and Resources	5,649	5,706	Pension	4	1
				Lump Sum	2	-
Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	4,053	4,053	Pension	3	-
				Lump Sum	1	-
Scott Carle	Vice Convener, Education and Children's Services (from 12 May 2016)	4,237	4,279	Pension	2	1
Sub Total		92,405	84,611	Pension	66	9
				Lump Sum	27	(1)

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

Table 8: Pension Benefits – Senior Employees

Name	Post Title	In-year Pension Contributions by ACC		Accrued Pension Benefits		
		For year to 31 March 2016 £	For year to 31 March 2017 £		As at 31 March 2017 £'000	Difference from 31 March 2016 £'000
Angela Scott	Chief Executive	28,343	28,627	Pension	61	4
Gayle Gorman	Depute Chief Executive (Director of Education and Children's Services)	21,947	22,167	Pension	9	2
Ewan Sutherland	Acting Director of Corporate Governance (until 30 April 2015)	2,118	-	Pension Lump	-	(29) (62)
Pete Leonard	Depute Chief Executive (Director of	21,947	22,167	Pension Lump	41 74	3 1
Marc Cole	City Centre Director	2,914	20,620	Pension	3	3
Bernadette Oxley	Chief Social Work Officer	14,944	16,268	Pension Lump	33 49	31 49
Elizabeth Taylor	Transitioning Director (until 28 August 2015)	8,719	-	Pension Lump	-	(39) (258)
Gordon McIntosh	Transitioning Director (until 10 August 2016)	21,947	7,985	Pension Lump	37 250	(12) 145
Steven Whyte	Head of Finance (s.95 Officer)	17,835	16,268	Pension Lump	26 41	2 -
Fraser Bell	Head of Legal and Democratic Services (Monitoring Officer)	11,518	16,268	Pension	10	2
Craig Innes	Head of Procurement (Monitoring Officer) (from 7 April 2015 until 28 July 2015)	4,942	-	Pension Lump	-	(26) (49)
Jane MacEachran	Head of Legal and Democratic Services (Monitoring Officer) (until 6 April 2015)	264	-	Pension Lump	-	(36) (83)
Ciaran Monaghan	Head of Service, Office of Chief Executive	15,420	15,575	Pension Lump	37 77	2 -
Takki Sulaiman	Head of Communications and Promotion	15,420	15,575	Pension	4	2
Total		188,278	181,520	Pension Lump	261 491	(91) (257)

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment. This may be enhanced in some cases where the employee has transferred in a previous pension from another pension scheme.

Table 9: Pension Benefits – the Council's Subsidiary Bodies

Name	Post Title	In-year Pension Contributions		Accrued Pension Benefits			
		For year to 31 March 2016 £	For year to 31 March 2017 £		As at 31 March 2017 £'000	Difference from 31 March 2016 £'000	Note
Graeme Cumming	Interim Managing Director, Aberdeen Exhibition & Conference Centre Ltd	13,846	13,846		n/a	n/a	1
Alistair Robertson	Managing Director, Sport Aberdeen Ltd	11,250	8,640	Pension	47	3	
Sandra Ross	Managing Director, Bon Accord Support Services Ltd	14,309	14,452	Pension	7	2	
Total		39,405	36,938	Total	54	5	

Note 1: Aberdeen Exhibition & Conference Centre Ltd contributes towards a money purchase pension scheme and therefore all the benefits that may become payable are retirement benefits, the rate and amount of which is calculated by reference to the payments made by the person (or on behalf of the person) and which are not average salary benefits. As a result no accrued pension benefits are shown.

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

26 September 2017

PRIMARY FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement on the different reserves held by the Council analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund Balance £'000	Housing Revenue Account £'000	Statutory and Other Reserves £'000	Capital Grants Unapplied Account £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 1 April 2015	(64,828)	(10,457)	(52,644)	(97)	(128,026)	(1,063,099)	(1,191,127)
Movement in Reserves during 2015/16							
Total Comprehensive Income & Expenditure	(8,960)	79,299	0	0	70,339	(403,962)	(333,623)
Adjustments between accounting basis & funding basis under regulations (note 5)	5,631	(79,839)	31,637	0	(42,571)	42,571	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(3,329)	(540)	31,637	0	27,768	(361,391)	(333,623)
Transfers to/from Other Statutory Reserves (note 6)	9,301	187	(9,095)	0	393	(393)	0
(Increase)/Decrease in 2015/16	5,972	(353)	22,542	0	28,161	(361,784)	(333,623)
Balance at 31 March 2016 carried forward	(58,856)	(10,809)	(30,102)	(97)	(99,863)	(1,424,884)	(1,524,747)

	General Fund Balance £'000	Housing Revenue Account £'000	Statutory and Other Reserves £'000	Capital Grants Unapplied Account £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2016 brought forward	(58,856)	(10,808)	(30,102)	(97)	(99,863)	(1,424,884)	(1,524,747)
Movement in Reserves during 2016/17							
Total Comprehensive Income & Expenditure	37,672	20,925	0	97	58,694	(26,924)	31,770
Adjustments between accounting basis & funding basis under regulations (note 5)	(24,901)	(21,425)	250	0	(46,076)	46,076	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	12,771	(500)	250	97	12,618	19,152	31,770
Transfers to/from Other Statutory Reserves (note 6)	(4,391)	0	4,245	0	(146)	146	0
(Increase)/Decrease in Year	8,380	(500)	4,495	97	12,472	19,298	31,770
Balance at 31 March 2017	(50,476)	(11,308)	(25,607)	0	(87,391)	(1,405,587)	(1,492,976)

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the expenditure is allocated for decision making purposes between the Council's directorates [services]. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16			2016/17			
Net Expenditure chargeable to GF & HRA balances £'000	Adjustments between funding & Accounting basis	Net Expenditure in the CIES £'000	Services	Net Expenditure chargeable to GF & HRA balances £'000	Adjustments between funding & Accounting basis	Net Expenditure in the CIES £'000
210,199	3,054	213,253	Education & Childrens Services	210,889	18,443	229,332
83,325	6,103	89,428	Communities, Housing & Infrastructure	77,487	25,022	102,509
87,049	(8,346)	78,703	Integrated Joint Board/Social Work	86,295	1,868	88,163
1,041	0	1,041	Housing Benefits	636	0	636
38,799	111	38,909	Corporate & Miscellaneous	30,385	4,277	34,662
25,212	1,037	26,249	Corporate Governance	25,387	1,029	26,416
2,825	11	2,836	Office of the Chief Executive	3,285	33	3,318
(1,175)	76,415	75,240	Housing Revenue Account	(500)	24,627	24,127
447,275	78,385	525,659	Net Cost of Services	433,864	75,299	509,163
			Other Income and Expenditure	(425,975)	(24,591)	(450,566)
(442,619)	(12,701)	(455,320)	(Surplus) or Deficit on Provision of Services	7,889	50,708	58,597
4,656	65,684	70,339	Opening General Fund and HRA Balance at 31 March 2016	(69,665)		
(75,284)			(Surplus)/deficit on General Fund and HRA Balance in Year	7,889		
4,656			To/From Other Statutory Reserves	(8)		
963			Closing General Fund and HRA Balance at 31 March 2017	(61,784)		
(69,665)						

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with IFRS.

2015/16			2016/17			
Gross Expenditure £'000	*Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
225,445	(12,192)	213,253	Education & Childrens Services	239,120	(9,788)	229,332
171,703	(82,276)	89,427	Communities, Housing & Infrastructure	178,354	(75,845)	102,509
119,276	(40,572)	78,704	Integrated Joint Board/Social Work	218,707	(130,544)	88,163
56,671	(55,630)	1,041	Housing Benefits	58,044	(57,408)	636
39,849	(939)	38,910	Corporate & Miscellaneous	39,109	(4,447)	34,662
37,276	(11,027)	26,249	Corporate Governance	37,849	(11,433)	26,416
4,679	(1,843)	2,836	Office of the Chief Executive	5,761	(2,443)	3,318
171,738	(96,497)	75,241	Housing Revenue Account	111,692	(87,565)	24,127
826,637	(300,976)	525,661	Cost of Services	888,636	(379,473)	509,163
0	(3,264)	(3,264)	Other Operating Expenditure (note 8)	0	(2,831)	(2,831)
74,087	(47,512)	26,575	Financing and Investment Income and Expenditure (note 9)	79,191	(46,534)	32,657
0	(478,633)	(478,633)	Taxation and Non Specific Grant Income (note 10)	0	(480,392)	(480,392)
900,724	(830,385)	70,339	(Surplus) or Deficit on Provision of Services	967,827	(909,230)	58,597
		(351,633)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(14,575)
		41	(Surplus)/deficit on revaluation of available for sale financial assets			404
		(52,454)	Actuarial (gains)/losses on pension assets/liabilities			(12,607)
		86	Other (gains)/losses			(49)
		(403,960)	Other Comprehensive Income and Expenditure			(26,827)
		(333,621)	Total Comprehensive Income and Expenditure			31,770

* 15/16 figures restated due to CIPFA reporting requirements being amended from SERCOP based to Council Service based in 16/17

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council.

31 March 2016 £'000		Note	31 March 2017 £'000
2,139,615	Property, Plant & Equipment	29	2,238,305
172,092	Heritage Assets	28	172,756
85,937	Investment Property	26	85,335
31	Intangible Assets	27	0
19,061	Long Term Investments	39	18,656
19,577	Long Term Debtors	39	7,311
2,436,313	Long Term Assets		2,522,363
28,375	Cash and Cash Equivalents	17	181,145
31,119	Short Term Investments	39	141,227
60,080	Short Term Debtors	34	78,677
1,674	Inventories	33	1,645
3,979	Assets Held for Sale	32	5,382
125,227	Current Assets		408,076
(113,348)	Short Term Borrowing	39	(81,351)
(87,672)	Short Term Creditors	35	(90,364)
(3,870)	Short Term Provisions	36	(4,233)
(2,478)	PPP Short Term Liabilities	31	(2,611)
(5,618)	Accumulated Absences Account	13	(5,515)
(521)	Grants Receipts in Advance - Revenue	38	(473)
(2,221)	Grants Receipts in Advance - Capital	38	(518)
(215,728)	Current Liabilities		(185,065)

31 March 2016 £'000		Note	31 March 2017 £'000
(464,892)	Long Term Borrowing	39	(900,871)
(223)	Long Term Creditors	39	(108)
(1,248)	Long Term Provisions	36	(679)
(103,584)	PPP Long Term Liabilities	31	(100,973)
(251,118)	Pension Liabilities	22	(249,767)
(821,065)	Long Term Liabilities		(1,252,398)
1,524,747	Net Assets		1,492,976
	Usable Reserves:	12	
(58,856)	General Fund Balance		(50,476)
(10,808)	Housing Revenue Account		(11,308)
(30,102)	Statutory and Other Reserves		(25,605)
(97)	Capital Grants Unapplied Account		0
(1,424,884)	Unusable Reserves	13	(1,405,587)
(1,524,747)	Total Reserves		(1,492,976)

Steven Whyte, CPFA
Head of Finance

26 September 2017

Cash Flow Statement

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2015/16 £'000		2016/17 £'000
(70,339)	Net Surplus or (Deficit) on the provision of services	(58,597)
176,625	Adjust net surplus or deficit on the provision of services for non cash movements (note 14)	137,933
(40,717)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 14)	(54,546)
65,569	Net cash flows from Operating Activities (note 14)	24,790
(95,533)	Net cash flows from Investing Activities (note 15)	(273,495)
14,160	Net cash flows from Financing Activities (note 16)	401,475
(15,804)	Net increase or (decrease) in cash and cash equivalents	152,770
44,179	Cash and cash equivalents at the beginning of the reporting period	28,375
28,375	Cash and cash equivalents at the end of the reporting period (note 17)	181,145

Notes to the Accounts**1. Accounting Policies****i General Principles**

The Annual Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year ending 31 March 2017. The Council is required to prepare Annual Accounts under the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

ii Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council is acting as an agent for another party (e.g. in the collection of National Non Domestic Rates and Water Charges), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

iii Carbon Reduction Commitment Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The CRC is a mandatory cap and trade emissions trading scheme for organisations whose electricity consumption is greater than 6000MWh or approximately £500k. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

iv Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand as they form an integral part of the Council's cash management.

v Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible fixed assets attributable to the relevant service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by loans fund principal charges in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi Employee BenefitsBenefits Payable during Employment

Short term employee benefits (those that fall due wholly within 12 months of the year end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year, being the period in which the employee takes the benefit. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulated Absences Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the Council can be members of two separate pension schemes:

- the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency on behalf of the Scottish Government; and
- the Local Government Pension Scheme (referred to as NESPF), administered by Aberdeen City Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the North East Scotland Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using the prevailing discount rate.
- The assets of the North East Scotland Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unitised securities – current bid price; and
 - property – market value.

- The change in the net pensions liability is analysed into the following components:
 - Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs; and
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure Statement;
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
 - contributions paid to the North East Scotland Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Annual Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

viii Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council has provided a number of financial guarantees which are reflected as a contingent liability and disclosed as a note to the annual accounts. A suitable value is earmarked from the General Fund Balance to provide financial backing in the event of there being a call on these guarantees.

ix Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest – except for the Council's Small Business Loan Scheme) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available for Sale Assets

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available for Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

x Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

xii Heritage Assets

The Council's Heritage Assets are held primarily in the City's Art Gallery and Museums. There are eight collections of heritage assets which are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the local area and its history. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's collections of heritage assets are accounted for as follows:

- **Fine Art & Applied Art Collection**

The Art collection includes paintings (both oil and watercolour), installations and sculptures, decorative and applied art including silver, ceramics and glass etc and is reported in the Balance Sheet at market value. There is no periodic programme of valuations although items in the collection are prompted for revaluation when they are loaned to exhibitions or if a similar item is sold at auction. The Council's Art Gallery and Museums' curators value the items and base this on commercial market values. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation as provided by the Curators with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

- **Civic Insignia**

The collection of Civic Insignia includes items utilised by the Lord and Lady Provost in their official capacity. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an ad hoc basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the Art Gallery and Museum's curators in accordance with the Council's policy on valuations of Civic Insignia. Subsequent measurement is based on insurance valuation performed in line with the Council's Policy.

- **Archaeology**

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeological collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet. The Council's acquisitions are well focused with the aim of reflecting the extraordinarily rich archaeological heritage of Aberdeen and the North East of Scotland. Future collecting will largely be due to continued excavation in Aberdeen City. The Council does not (normally) make any purchases of archaeological items.

- **Library and Information Services**

The collection of reference items which could be deemed to be held and maintained principally for their contribution to knowledge and culture include historical book collections, directories and local newspaper archives. The collection is not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £500 and as far as the Council is aware no individual item is worth more than £2,000.

- **Other Heritage Assets**

Collections outwith those stated above are reported in the Balance Sheet at market value where possible as determined by the curator. This includes city monuments, maritime & social history, numismatics and science technology & industry. Acquisitions are rare and most additions are due to donations which are accepted provided suitable storage is available. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation ascertained by the museum's curators in accordance with the Council's policy on valuations of heritage assets.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note xxi in this summary of significant accounting policies. Disposal of heritage assets is carried out occasionally following the procedures outlined in the Acquisition and Disposal Policy, approved by the Education Culture and Sport committee on 16 October 2010. The Policy also sets out that disposals of assets in the collections are the responsibility of the governing body of the museum acting on the advice of professional curatorial staff and will only be disposed of after considering the public interest and implication for the museum's collections. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the annual accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see notes xx in this summary of significant accounting policies).

xiii Intangible Assets

Expenditure on non monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

xiv Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost.

xv Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value except for the inventories held by Building Services and Roads Services which are valued at latest price and average price respectively. The difference between these valuations and the lower of cost or net realisable value is not material.

Work in progress is subject to an interim valuation at the year end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

xvi Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

xvii Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

xiii Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee*Finance Leases*

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

xix Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

xx Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. For the purposes of component accounting, in line with the methodology of Social Housing, additions to Council Dwellings will be discounted at an appropriate rate. The beacon discount factor is determined by comparing the Investment Value to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located where there is a legal obligation.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and vehicles, plant and equipment – depreciated historical cost;
- community assets – historical cost or nominal value;
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- specialised properties – depreciated replacement cost (DRC);
- non-financial assets e.g. surplus assets and investment properties – fair value*; and
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

**Fair Value*

*Valuation Technique – All assets have been valued based on Level 2 of the Fair Value Hierarchy**. This uses significant observable inputs.*

There has been no change in the valuation techniques used during the year for either Investment Properties or Surplus Assets.

***Significant Observable Inputs – Level 2*

Fair value has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised in the Comprehensive Income and Expenditure Statement only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is not applied to an asset in the year of acquisition, revaluation nor to expenditure on assets under construction. Assets that are disposed of are fully depreciated in the year of disposal.

Depreciation is calculated on the following bases:

- council dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer; and
- infrastructure and vehicles, plant and equipment – straight-line allocation over the useful life as estimated by management.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

xxi Public Private Partnerships (PPP) and Similar Contracts

PPP and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under its PPP schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

PPP non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PPP operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

xxii Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be exposed to liabilities from court cases that could eventually result in the making of a settlement or the payment of compensation, e.g. equal pay claims, or consider that over time the collection of income will become more difficult and thereby fail to secure the full value of the debt, or may have made a decision in relation to changes in service delivery from which costs arise, e.g. redundancy costs.

Estimation techniques are based on previous experience, prevailing economic conditions, aged analysis, expert and specialist advice and current data held by the Council.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiii Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments and retirement benefits that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxiv Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but do not result in the creation of a non current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

The Council has in the past taken advantage of 'Consent to Borrow' given by Scottish Ministers under Para1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 to cover equal pay and statutory redundancy costs up to strictly defined limits. The repayment period is 10 years.

xxv VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- Amendments to the reporting of pension fund scheme transaction costs; and
- Amendment to the reporting of investment concentration.

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 annual accounts.

Overall, these new or amended standards are not expected to have a significant impact on the annual accounts.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in these Annual Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision; and
- The Council is deemed to control the services provided under the Public Private Partnership arrangements that it has for the 3R's (Reorganise, Renovate, Rebuild) schools project and also to control the residual value of the schools at the end of the agreement. The accounting policies for PPP schemes and similar contracts have been applied to the arrangement and the schools (net value £172.7 million) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Annual Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates made.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the Council were to reduce its spending on repairs and maintenance it could bring into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. For example, it is estimated that for a building worth £30 million with a useful life of 35 years, the annual depreciation charge would increase by £25,210 if the useful life had to be reduced by one year.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Council Dwellings – Housing Stock	Council dwellings are valued combining the Beacon Method which aggregates the vacant possession values of each unit of housing stock and the investment approach where the gross rental income is capitalised adopting an appropriate investment yield. The beacon discount factor is determined by comparing the Investment Value to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The investment yield applied is 8.75%.	If the investment yield is increased by 0.25%, this would lead to a corresponding decrease in the total value of council dwellings of £25.6m. If the investment yield is reduced by 0.25%, this would lead to a corresponding increase in the total value of council dwellings of £27.2m.
Service Concession Arrangement (PPP)	The council has a contract with an operator to provide ten schools. The contract regulates price revisions over the period of the service arrangement. Fees are adjusted by an indexation factor each year which is based on RPI plus the Bank of England base rate.	The indexation adjustment is applied to approximately 49% of the Unitary Charge (UC) and 100% of the monthly Service Fee (SF). If RPI were to increase by 1% and the base rate was 1% rather than 0.5%, the UC and SF would increase by £8,973.02 and £4,340.09 per month respectively.
Provisions	The Council has made a provision of £0.2 million for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.02 million the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £23.8 million. However, if another assumption were increased, e.g. pay inflation, by 0.1% then this would result in an increase in the pension liability of £24.2 million. The interaction of assumptions is therefore extremely complex. See note 22 for further assumptions.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2017 the Council had a balance of short term debtors of £123.699 million. A review of significant balances suggested that an allowance for impairment of debt of £54.457 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 2% on impairment would require a further provision of £2.474 million.

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

5. Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2015/16	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Statutory & Other Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	
Adjustments involving the Capital Adjustment Account (CAA):						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation and impairment of non current assets	(37,313)	(32,299)	0	0	0	69,612
Revaluation losses on Property, Plant and Equipment	(2,896)	(79,320)	0	0	0	82,216
Capital grants and contributions applied	29,982	1,325	0	0	0	(31,307)
Write off carrying amount of non current assets sold	(322)	(5,824)	0	0	0	6,146
Write off carrying amount of non current assets scrapped	(15)	0	0	0	0	15
Statutory provision for the financing of Capital spend (3R's)	1,773	0	0	0	0	(1,773)
Movement in the fair value of Investment Properties	864	0	0	0	0	(864)
Amortisation of Intangible Assets	(49)	0	0	0	0	49
Other adjustments	0	645	0	0	0	(645)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Loan principal repayments during the year	11,152	5,613	0	0	0	(16,765)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	13,495	21,995	32,000	0	0	(67,490)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(363)	9,410	0	(9,047)
Proceeds from sale of non current assets	1,181	9,087	0	(10,268)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset disposals	(666)	(192)	0	858	0	0
Adjustments involving the Capital Grants Unapplied Account:						
Adjustments involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	428	0	0	0	0	(428)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(40,766)	(2,516)	0	0	0	43,282
Employer's pensions contributions and direct payments to pensioners payable in the year	27,177	1,688	0	0	0	(28,865)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	1,548	4	0	0	0	(1,552)
Other Adjustments	58	(45)	0	0	0	(13)
Total Adjustments	5,631	(79,839)	31,637	0	0	42,571

2016/17	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Statutory & Other Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	
Adjustments involving the Capital Adjustment Account (CAA):						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation and impairment of non current assets	(40,417)	(27,922)	0	0	0	68,339
Revaluation losses on Property, Plant and Equipment	(25,056)	(32,373)	0	0	0	57,429
Capital grants and contributions applied	36,663	6,736	0	0	0	(43,399)
Write off carrying amount of non current assets sold	(510)	(7,474)	0	0	0	7,984
Write off carrying amount of non current assets scrapped	(2,015)	0	0	0	0	2,015
Statutory provision for the financing of Capital spend (3R's)	2,478	0	0	0	0	(2,478)
Movement in the fair value of Investment Properties	(57)	0	0	0	0	57
Amortisation of Intangible Assets	(31)	0	0	0	0	31
Other adjustments	0		0	0	0	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Loan principal repayments during the year	10,599	6,001	0	0	0	(16,600)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	3,580	22,913		0	0	(26,493)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	250	11,289	0	(11,539)
Proceeds from sale of non current assets	860	11,079	0	(11,939)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset	(630)	(20)	0	650	0	0
Adjustments involving the Capital Grants Unapplied Account:						
Adjustments involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	426	0	0	0	0	(426)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(40,405)	(1,444)	0	0	0	41,849
Employer's pensions contributions and direct payments to pensioners payable in the year	29,525	1,068	0	0	0	(30,593)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	89	11	0	0	0	(100)
Other Adjustments						
			0	0	0	0
Total Adjustments	(24,901)	(21,425)	250	0	0	46,076

6. Movement in Reserves Statement – Transfers to/from Earmarked Reserves and Other Statutory Funds

Earmarked Reserves: This note sets out the amounts set aside from the General Fund and HRA balances as earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet future General Fund and HRA expenditure.

	Balance at 1 April 2015 £'000	Transfers in 2015/16 £'000	Transfers Out 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Purpose of the Earmarked Reserve
General Fund:								
Strategic Infrastructure Plan	(357)	(21)	378	0	0	0	0	Investment towards the delivery of the plan
ICT Projects -	(2,249)	(804)	1,447	(1,606)	0	790	(816)	Investment in ICT projects
Business Plan Service Option	(2,275)	0	1,766	(509)	0	285	(224)	Investment regarding delivery of 5 year business plan
Star Awards Sponsorship	(25)	(21)	21	(25)	(19)	19	(25)	Through procurement team, rebates paid by suppliers for sales volumes. Agreed that this funding would be used to fund the Star Awards, which take place each year
Events Review	0	(23)	0	(23)	0	23	0	To fund an events review, and development of a 3 - 5 year strategy
Employee Benefit Scheme	(113)	0	36	(77)	0	0	(77)	For marketing the Employee Benefit Scheme
H&S Training Programme for Managers	0	(25)	0	(25)	0	25	0	Health & Safety Training Programme for Managers
Xerox Print Contract	0	0	0	0	(317)	0	(317)	2016/17 rebate from Xerox to fund various Data projects
Events - Silver City Stories	0	0	0	0	(8)	0	(8)	Marketing for Silver City Stories Income received by Events Team during 2016/17
City Deal	(300)	0	0	(300)	0	81	(219)	Funding to support the city deal scheme
Shopmobility	(91)	0	91	0	0	0	0	Unspent funding to be utilised on the development of the scheme
Fairer Aberdeen	(36)	0	0	(36)	0	36	0	Unspent funding to be utilised for Community Planning Aberdeen
Energy Efficiency Fund	(1,184)	(386)	346	(1,224)	0	489	(735)	Pump-prime funding for energy saving schemes
Road Repairs/Projects	(162)	0	37	(125)	0	125	0	Road repair and maintenance
"The Green" Townscape Project	(50)	0	50	0	0	0	0	Match funding in relation to the Heritage Lottery Funding awarded for works at "the Green"
South of the City Regeneration	(1,337)	0	1,337	0	0	0	0	Fully committed to the Aberdeen City Hydrogen Energy Storage (ACHES) project
Sub Total	(8,179)	(1,280)	5,509	(3,950)	(344)	1,873	(2,421)	

	Balance at 1 April 2015 £'000	Transfers in 2015/16 £'000	Transfers Out 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Purpose of the Earmarked Reserve
General Fund cont'd:	(8,179)	(1,280)	5,509	(3,950)	(344)	1,873	(2,421)	
Windfarm setup	(93)	0	93	0	0	0	0	Professional fees for legal advice, business case consultancy and client advisor services
Bus Lane Enforcement	(1,265)	(535)	510	(1,290)	(1,087)	1,788	(589)	As required by the relevant legislation, net income from Bus Lane Enforcement to facilitate the objective's of the Local Transport Strategy
Property Transfer	(155)	0	0	(155)	0	3	(152)	Funding in relation to the transfer of Thomas Blake Glover House to the Council
Zero Waste Funding	(350)	0	350	0	0	0	0	Unspent Zero Waste Fund monies
Mobile Working	(97)	0	97	0	0	0	0	Implementation of mobile working for field staff in Trading Standards & Environmental Health
Second/Long Term Empty Homes	(5,370)	(1,528)	0	(6,898)	(1,872)	1,969	(6,801)	Additional income generated by reducing the discounts which is to be used towards funding affordable housing.
Replacement of Handheld Devices	(148)	0	148	0	0	0	0	To fund the replacement of handheld devices used by Trades Operatives
Park Improvement Schemes	(173)	0	67	(106)	0	106	0	Various Park Improvements
Hazlehead Pets Corner	(100)	0	0	(100)	0	100	0	Renovation and expansion of Hazlehead Pets Corner
Duthie Park, Winter Gardens Education Room	(40)	0	1	(39)	0	39	0	Work on David Welch Winter Gardens Education Room at Duthie Park
Mens Shed	(10)	0	3	(7)	0	2	(5)	Contribution to Men's Shed social club, Dyce
Balnagask Community Centre	(7)	0	2	(5)	0	5	0	Internal improvement scheme
Community Planning	0	(24)	0	(24)	0	15	(9)	Community Planning Participatory Budgeting
Devolved Education Management (Community Centres)	(924)	0	54	(870)	0	272	(598)	Community Education Centres c/forward
Devolved Education Management (School Funds)	(2,933)	(8)	181	(2,760)	0	1,903	(857)	School funds c/forward
Sub Total	(19,844)	(3,375)	7,015	(16,204)	(3,303)	8,075	(11,432)	

	Balance at 1 April 2015 £'000	Transfers in 2015/16 £'000	Transfers Out 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Purpose of the Earmarked Reserve
General Fund cont'd:	(19,844)	(3,375)	7,015	(16,204)	(3,303)	8,075	(11,432)	
City of Culture	(592)	0	592	0	0	0	0	To develop culture within the City.
Transition extreme	(100)	0	100	0	0	0	0	Contribution
Youth Work and Under 12's Club	(100)	0	100	0	0	0	0	To support work with children and young people in regeneration areas and Mastrick
Sea Cadets	(10)	0	10	0	0	0	0	Contribution to Aberdeen's two sea cadet groups
Music Hall Redevelopment	(1,000)	0	200	(800)	0	0	(800)	To contribute towards the redevelopment of the Music Hall
HMT Roof Works	0	(288)	0	(288)	0	0	(288)	HMT Roof Works
Reclaiming Social Work	(3,267)	0	0	(3,267)	0	1,837	(1,430)	Contribution towards cost of Reclaiming Social Work project
Hilton Outdoor Centre	(25)	0	0	(25)	0	25	0	Improvements to outdoor area
Developing Young Workforce	0	(300)	0	(300)	0	239	(61)	To prepare young adults for the transition from education to the workplace
School Drive/Abbotswell	0	(29)	0	(29)	0	29	0	For adaptations to the school drive service.
De-risk the Council	(2,872)	0	0	(2,872)	0	217	(2,655)	Cash backing for Council guarantees to external organisations
Welfare Reform	(2,000)	0	0	(2,000)	0	2,000	0	Recognised priority of the Council and additional risk associated with being uncertain about the full financial impact on the Council
Financial Risk Fund	(5,541)	(2,837)	0	(8,378)	0	0	(8,378)	Provide funding to support the cost pressure risks associated with Priority Based Budgeting
Scottish Welfare Fund	(40)	0	5	(35)	0	35	0	Unspent funding to be utilised in 2016/17 as per advice from the Scottish Government
Investment Strategy (Digital Strategy)	(1,350)	0	0	(1,350)	0	684	(666)	ICT Digital Strategy
Investment Strategy	(14,632)	0	4,701	(9,931)		3,331	(6,600)	Funding set aside towards the future investment strategy of the Council
Change Fund	0	0	0	0	(5,976)	0	(5,976)	Support Change programme
Sub Total	(51,373)	(6,829)	12,723	(45,479)	(9,279)	16,472	(38,286)	

	Balance at 1 April 2015 £'000	Transfers in 2015/16 £'000	Transfers Out 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17	Balance at 31 March 2017 £'000	Purpose of the Earmarked Reserve
General Fund cont'd:	(51,373)	(6,829)	12,723	(45,479)	(9,279)	16,472	(38,286)	
Revenue Grants Unspent	(2,164)	(338)	1,122	(1,380)	(530)	1,447	(463)	Various revenue grants that remained unspent at year end to which no repayment conditions apply
Big Belly Bins	0	(105)	0	(105)	0	105	0	To finance the next phase of city centre bin investment in partnership with Aberdeen Inspired
Building Services IT Upgrade	0	0	0	0	(148)	0	(148)	Equipment identified as having the specifications that are required for business/service needs, and to help drive forward productivity and efficiencies with in mobile working
Various Projects	0	(601)	0	(601)	0	313	(288)	Provide funding to support a variety of projects
Total General Fund	(53,537)	(7,873)	13,845	(47,565)	(9,957)	18,337	(39,185)	

Housing Revenue Account (HRA):								
Housing repairs	(1,207)	(1,193)	1,207	(1,193)	(1,326)	1,193	(1,326)	Repairs ordered prior to the year end
House Sales - Non right to buy	(245)	0	0	(245)	0	0	(245)	One-off vacant properties sold on the open market
Purchase of internal land/properties	(305)	0	305	0	0	0	0	Recognition of value of land to be transferred to housing account from general fund
Central Heating	(645)	0	645	0	0	0	0	Finance lease liability in relation to a long-term lease agreement
Total HRA	(2,402)	(1,193)	2,157	(1,438)	(1,326)	1,193	(1,571)	
Total Earmarked Reserves	(55,939)	(9,066)	16,002	(49,003)	(11,283)	19,530	(40,756)	

2015/16	General Fund £'000	HRA £'000	2016/17	General Fund £'000	HRA £'000
Total Transfers in during the year	(7,873)	(1,193)	Total Transfers in during the year	(9,957)	(1,326)
Total Transfers out during the year	13,845	2,157	Total Transfers out during the year	18,337	1,193
Net Movement in Earmarked Reserves in 2015/16	5,972	964	Net Movement in Earmarked Reserves in 2016/17	8,380	(133)

Other Statutory Funds: The Council holds a number of other statutory funds. This note sets out the amounts held and a summary of transactions undertaken in the financial year.

Name of Fund	Balance at 1 April 2015 £'000	Transfers in 2015/16 £'000	Transfers Out 2015/16 £'000	Balance at 31 March 2016 £'000	Transfers In 2016/17 £'000	Transfers Out 2016/17 £'000	Balance at 31 March 2017 £'000	Purpose of the Earmarked Reserve
Capital	(50,388)	(9,564)	32,000	(27,952)	(1,215)	5,465	(23,702)	To meet the capital expenditure and the repayment of the principal on loans
Insurance	(1,907)	(748)	853	(1,802)	(207)	451	(1,558)	To meet the cost of uninsured claims
City Improvement	(344)	(3)	4	(343)	(3)	6	(340)	To meet the cost of carrying out improvements to the city as decided by the Council
Lord Byron	(5)	0	0	(5)	0	0	(5)	To meet the costs of maintaining Lord Byron's statue
Total Statutory and Other Funds	(52,644)	(10,315)	32,857	(30,102)	(1,425)	5,922	(25,605)	

7. Notes to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2015/16

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Education & Childrens Services	13,986	1,674	(12,605)	3,054
Communities, Housing & Infrastructure	15,433	1,552	(10,882)	6,103
Integrated Joint Board	329	498	(9,173)	(8,346)
Housing Benefits	0	0	0	0
Corporate & Miscellaneous Services	70	60	(19)	111
Corporate Governance	660	997	(621)	1,037
Office of the Chief Executive	0	83	(72)	11
HRA	111,619	315	(35,519)	76,415
Net Cost of Services	142,097	5,180	(68,892)	78,385
Other Income and Expenditure from the Funding Analysis	(27,414)	9,237	5,475	(12,702)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit	114,683	14,417	(63,417)	65,683

Adjustments between Funding and Accounting Basis 2016/17

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Education & Childrens Services	22,412	805	(4,775)	18,443
Communities, Housing & Infrastructure	31,874	780	(7,633)	25,022
Integrated Joint Board/Social Work	1,658	233	(22)	1,868
Housing Benefits	0	0	0	0
Corporate and Miscellaneous Services	40	21	4,216	4,277
Corporate Governance	915	843	(730)	1,029
Office of the Chief Executive	0	41	(8)	34
HRA	60,295	89	(35,757)	24,627
Net Cost of Services	117,195	2,812	(44,708)	75,299
Other Income and Expenditure from the Funding Analysis	(38,032)	8,444	4,996	(24,591)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit	79,164	11,256	(39,712)	50,708

8. Comprehensive Income and Expenditure Statement – Other Operating Expenditure

2015/16 £'000		2016/17 £'000
(3,264)	Gains on the disposal on non current assets	(2,831)
(3,264)	Total	(2,831)

9. Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2015/16 £'000	*		2016/17 £'000
31,091		Interest payable and similar charges	35,072
8,760		PY Pensions interest cost and expected return on pensions assets	8,224
(1,167)		Interest receivable and similar income	(771)
(6,064)		Income and Expenditure in relation to investment properties and changes in their fair value	(5,900)
(6,045)		Other Investment income	(3,968)
26,575		Total	32,657

* 15/16 figures restated due to CIPFA reporting requirements being amended from SERCOP based to Council Service based in 16/17

10. Comprehensive Income and Expenditure Statement – Taxation and Non Specific Grant Income

2015/16 £'000		2016/17 £'000	
(106,170)	Council Tax Income	(104,192)	
(210,538)	* Non domestic rates	(217,418)	*
(130,618)	Non ring-fenced government grants	(115,384)	
(31,307)	Capital grants and contributions	(43,398)	
(478,633)	Total	(480,392)	

* During 2016/17, notification was received that £3.4m of 2015/16 income was eligible to be retained and this has been reflected in the 2016/17 figures. No account has been taken of any excess to be retained in relation to exceeding the 2016/17 target.

11. Comprehensive Income and Expenditure Statement – Material Items of Income and Expense

There are no material items for 2016/17

12. Balance Sheet – Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

13. Balance Sheet – Unusable Reserves

31 March 2016 £'000		31 March 2017 £'000
(1,015,671)	Revaluation Reserve	(1,006,602)
(264)	Available for Sale Financial Instruments Reserve	141
(681,994)	Capital Adjustment Account	(670,290)
16,309	Financial Instruments Adjustment Account	15,882
251,118	Pensions Reserve	249,767
5,618	Accumulated Absences Account	5,515
(1,424,884)	Total Unusable Reserves	(1,405,587)

Revaluation Reserve

The Revaluation Reserve contains the gains/loses made by the Council arising from increases/decreases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16			2016/17	
£'000	£'000		£'000	£'000
	(670,990)	Balance at 1 April		(1,015,671)
(360,635)		Upward revaluation of assets	(38,544)	
9,001		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	23,969	
	(351,634)	Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services		(14,575)
6,615		Difference between fair value depreciation and historical cost depreciation	23,597	
338		Accumulated gains on assets sold or scrapped	97	
	6,953			23,694
	0	Amount written off to the Capital Adjustment Account		(50)
	(1,015,671)	Balance at 31 March		(1,006,602)

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; or
- disposed of and the gains are realised.

2015/16			2016/17	
£'000	£'000		£'000	£'000
	(306)	Balance at 1 April		(264)
0		Upward revaluation of investments	0	
42		Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	405	
	42			405
	(264)	Balance at 31 March		141

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

2015/16 £'000		2016/17	
		£'000	£'000
(704,865)	Balance at 1 April		(681,994)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
69,611	Charges for depreciation and impairment on non current assets	68,339	
82,216	Revaluation losses on Property, Plant and Equipment	57,359	
49	Amortisation of intangible assets	31	
6,161	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,333	
158,037		136,062	
(6,953)	Adjusting amounts written out of the Revaluation Reserve	(23,643)	
151,084	Net written out amount of the cost of non current assets consumed in the year		112,419
	Capital financing applied in the year:		
(9,047)	Use of the Capital Receipts Reserve to finance new capital expenditure	(11,539)	
(32,000)	Use of the Capital Fund to finance new capital expenditure	0	
(31,307)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(43,398)	
(16,765)	Loans Fund principal repayments	(16,600)	
(35,490)	Capital expenditure charged against the General Fund and HRA balances	(26,492)	
(1,773)	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements	(2,478)	
(126,382)			(100,507)
(320)	Deferred Capital Receipt		(332)
(647)	Central Heating Lease Reversal		0
(864)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		124
(681,994)	Balance at 31 March	0	(670,290)

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses this account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden to be met. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2015 will be charged to the General Fund over the next 45 years.

2015/16		2016/17	
£'000		£'000	£'000
16,734	Balance at 1 April		16,308
	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements		
(28)	Long Term Borrowing – Stepped Loans	(29)	
(398)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(397)	
(426)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		(426)
16,308	Balance at 31 March		15,882

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16		2016/17
£'000		£'000
289,155	Balance at 1 April	251,118
(52,454)	Remeasurements of the net defined benefit liability	(12,607)
43,282	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	41,849
(28,865)	Employer's pensions contributions and direct payments to pensioners payable in the year	(30,593)
251,118	Balance at 31 March	249,767

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015/16		2016/17	
£'000		£'000	£'000
7,170	Balance at 1 April		5,618
(7,170)	Settlement or cancellation of accrual made at the end of the preceding year	(5,618)	
5,618	Amounts accrued at the end of the current year	5,515	
(1,552)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(103)
5,618	Balance at 31 March		5,515

14. Cash Flow Statement – Operating Activities

2015/16		2016/17
£'000		£'000
(70,339)	Net surplus or (deficit) on the provision of services ^	(58,597)
(70,339)		(58,597)
	Adjustment to surplus or deficit on the provision of services for non-cash movements:	
69,611	Depreciation	68,339
82,216	Impairment, downward revaluations & non sale derecognitions	57,429
(169)	(Increase)/Decrease in Stock	30
(3,107)	(Increase)/Decrease in Debtors	(6,664)
4,638	Increase/(Decrease) in Creditors	723
14,417	Movement in Pension Liability	11,256
6,161	Carrying amount of non current assets sold	10,332
3,673	Contributions to Other Reserves/Provisions	(3,600)
49	Amortisation of Intangible Assets	31
(864)	Movement in value of investment properties	57
176,625		137,933
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(31,307)	Receipt of Capital Grants and Contributions	(43,398)
(9,410)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(11,148)
(40,717)		(54,546)
65,569	Net cash flows from operating activities	24,790

^ includes the following:

2015/16 *		2016/17
£'000		£'000
1,167	Interest received	771
(31,091)	Interest paid	(30,737)

* 15/16 figures restated due to CIPFA reporting requirements being amended from SERCOP based to Council Service based in 16/17

15. Cash Flow Statement – Investing Activities

2015/16		2016/17
£'000		£'000
(136,871)	Purchase of property, plant and equipment, investment property and intangible assets	(217,933)
621	Purchase of short term and long term investments	(110,108)
10,268	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11,798
(858)	Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	(650)
31,307	Capital grants and contributions received	43,398
(95,533)	Net cash flows from investing activities	(273,495)

16. Cash Flow Statement – Financing Activities

2015/16		2016/17
£'000		£'000
(29)	Other receipts from financing activities	(29)
(1,773)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts	(2,478)
(4,729)	Repayment of amounts borrowed	(31,998)
20,691	New borrowings	435,980
14,160	Net cash flows from financing activities	401,475

17. Cash Flow Statement – Cash and Cash Equivalents

31 March 2016		31 March 2017
£'000		£'000
35	Cash held by the Authority	38
28,340	Bank current accounts	181,107
0	Short term deposits with building societies	0
28,375	Total cash and cash equivalents	181,145

18. Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

		2014/15		2015/16		2016/17	
		£'000	£'000	£'000	£'000	£'000	£'000
Building and Maintenance							
	Turnover	(31,743)		(31,476)		(30,601)	
Provides a range of services, covering all trades, for emergency response, planned maintenance and improvement of buildings. This includes the Council's housing stock as well as operational buildings. Cumulative surplus over the last three financial years: £5.679 million.	Expenditure	28,155		29,105		29,945	
	Interest	(3)		(3)		(2)	
	Net (Surplus)/Deficit		(3,591)		(2,374)		(658)
	Refunds/(Charges)		178		0		0
	Net (Surplus)/Deficit		(3,413)		(2,374)		(658)
Provision and Management of Car Parking Facilities							
	Turnover	(8,730)		(8,444)		(8,040)	
Responsible for the management and operation of off-street and on-street pay and display parking as well as policing the regime for dealing with decriminalised parking offences. Cumulative surplus over the last three operational financial years: £11.253 million.	Expenditure	4,221		4,877		4,821	
	Interest	(109)		(104)		(91)	
	Net (Surplus)/Deficit		(4,618)		(3,671)		(3,310)
Net (Surplus)/Deficit on Trading Operations (excluding Letting of Properties)			(8,031)		(6,045)		(3,968)
Letting of Industrial, Commercial and Other Properties							
	Turnover	(6,747)		(6,425)		(7,122)	
Provides the management and operation of the Council's portfolio of industrial, commercial and miscellaneous land and property holdings which are in the main available for rent on the open market at commercial rates. Cumulative surplus in the last three financial years: £17.945 million.	Expenditure	2,839		1,934		1,763	
	Exceptional Items	(3,069)		(864)		57	
	Interest	(741)		(709)		(598)	
	Net (Surplus)/Deficit		(7,718)		(6,064)		(5,900)
Net (Surplus)/Deficit on Trading Operations			(15,749)		(12,109)		(9,868)

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement within the Financing and Investment Income and Expenditure line. The properties held within the Letting of Industrial, Commercial and Other Properties are classed as Investment Properties and thus the results of this operation are included within this category.

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Net (Surplus)/Deficit on trading operations	(15,749)	(12,109)	(9,868)
Investment Properties	(7,718)	(6,064)	(5,900)
Other Trading Operations	(8,031)	(6,045)	(3,968)
Net Surplus credited to Financing and Investment Income and Expenditure (note 8)	(15,749)	(12,109)	(9,868)

* 15/16 figures restated due to CIPFA reporting requirements being amended from SERCOP based to Council Service based in 16/17

19. Agency Services

The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The income received from this service in 2016/17 was £760,750 (2015/16 £760,750).

20. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims and statutory inspections and any non-audit services provided by the Council's external auditor

	2015/16 £'000	2016/17 £'000
Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice*	401	411
Fees payable in respect of other services provided by the appointed auditor over and above the above duties	0	574
Audit of financial statements of subsidiaries pursuant to legislation	9	10
Total	410	995
* Of the amount paid to Audit Scotland, £253,000 relates to auditor remuneration.		

21. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by The Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of the Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2016, the Council's own contributions equate to approximately 2.7%.

In 2016/17, the council paid £10.890 million to the Scottish Government in respect of teachers' pension costs, which represents 17.2% of teachers' pensionable pay. The figure for 2015/16 was £10.223 million representing 16.2% of pensionable pay.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 22. The Council is not liable to the scheme for any other entities obligations under the plan.

22. Defined Benefit Pension Schemes

The North East Scotland Pension Fund (The Main Fund) and the Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations.

The Scheme was established under the Superannuation Fund Act 1972. It is a statutory scheme and is contracted out of the Second State Pension. The scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers).

Employees of admitted bodies can join the scheme subject to their individual admission criteria which are outwith the control of Aberdeen City Council.

There are 11 scheduled bodies and these are:

Aberdeen City Council, Aberdeenshire Council, The Moray Council, Scottish Water, Scottish Police Authority, Scottish Fire and Rescue Service, Visit Scotland, North East Scotland College, Moray College, Grampian Valuation Joint Board and Nestrans.

The Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

Under the Local Government Pension Scheme (Administration) (Scotland) Regulations, there is a requirement for the Council to publish a pension fund annual report from 2011. The report covers, amongst other things, a report by the Head of Finance, scheme governance, governance compliance and membership statistics. It also contains important information on investments and market valuations.

The report will be made available on the Pension Fund website under www.nespf.org.uk or on request from the Head of Finance, Marischal College, Broad Street, Aberdeen, AB10 1AB

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Aberdeen City Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- The principal risks to authority of the Local Government Pension Scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post retirement Benefits

Discretionary post retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions relating to post employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Scottish Teachers Superannuation Scheme	
	£'000		£'000	
Comprehensive Income and Expenditure Statement	2015/16	2016/17	2015/16	2016/17
<i>Cost of Services:</i>				
Service cost comprising:				
• current service cost	33,749	32,595	0	0
• administration expenses	509	537	0	0
• past service costs	57	135	0	0
• loss from settlements	207	358	0	0
Financing and Investment Income and Expenditure				
• net interest expense	7,819	7,255	941	969
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	42,341	40,880	941	969
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>				
Remeasurement of the net defined benefit liability comprising:				
• return on plan assets (excluding the amount included in the net interest expense)	11,829	(178,631)	0	0
• actuarial gains and losses arising on changes in demographic assumptions	0	(20,666)	0	0
• actuarial gains and losses arising on changes in financial assumptions	(63,234)	223,491	(1,049)	4,037
• other	0	(39,220)	0	(1,618)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(9,064)	25,854	(108)	3,388
Movement in Reserves Statement				
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(42,341)	(40,880)	(941)	(969)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
• employers' contributions payable to scheme	24,663	26,455	0	0
• retirement benefits payable to pensioners	2,439	2,402	1,763	1,736

	Local Government Pension Scheme £'000			Includes: Discretionary Benefits Arrangements £'000		
	2014/15	2015/16	2016/17	2014/15	2015/16	2016/17
Present value of the defined benefit obligation	(1,245,520)	(1,225,962)	(1,434,039)	(43,807)	(41,382)	(45,082)
Fair value of plan assets	987,605	1,004,213	1,215,293	0	0	
Sub total	(257,915)	(221,749)	(218,746)	(43,807)	(41,382)	(45,082)
Scottish Teachers Superannuation Scheme	(31,240)	(29,369)	(31,021)	0	0	0
Net liability arising from defined benefit obligation	(289,155)	(251,118)	(249,767)	(43,807)	(41,382)	(45,082)

The liabilities show the underlying commitments that the Council has in the long term to pay post employment (retirement) benefits. The total liability of £249.767 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. Statutory arrangements for funding the deficit are as follows:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary; and
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £29.0 million. Expected contributions for the Discretionary Benefit Scheme in the year to 31 March 2018 are £4.2 million.

Assets and liabilities in relation to post employment benefits

Reconciliation of fair value of the scheme (plan) assets:

	Total Assets: Local Government Pension Scheme £'000		Includes: Discretionary Benefits Arrangements £'000	
	2015/16	2016/17	2015/16	2016/17
Opening fair value of scheme assets	987,605	1,004,213	0	0
Interest income	31,562	35,110	0	0
Remeasurement gain/(loss):				
• The return on plan assets, excluding the amount included in the net interest expense	(11,829)	178,631	0	0
• Other	(509)	(537)	0	0
The effect of changes in foreign exchange rates	0	0	0	0
Contributions from employer	27,102	28,857	2,358	2,832
Contributions from employees into the scheme	7,746	8,205	0	0
Benefits paid	(37,464)	(39,186)	(2,358)	(2,832)
Other			0	0
Closing fair value of scheme assets	1,004,213	1,215,293	0	0
	Total Assets: Scottish Teachers Superannuation Scheme (All Unfunded) £'000			
	2015/16	2016/17		
Opening fair value of scheme assets	0	0		
Contributions from employer	1,763	1,736		
Benefits paid	(1,763)	(1,736)		
Closing fair value of scheme assets	0	0		

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £213.741 million (2015/16: £19.732m).

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation):

	Total Liabilities: Local Government Pension Scheme £'000		Includes: Discretionary Benefits £'000	
	2015/16	2016/17	2015/16	2016/17
Opening balance at 1 April	(1,245,520)	(1,225,962)	(43,807)	(41,382)
Current service cost	(33,749)	(32,595)	0	0
Interest cost	(39,381)	(42,365)	(1,364)	(1,398)
Contributions from scheme participants	(7,746)	(8,205)	0	0
Remeasurement (gains) and losses:				
• Actuarial gains/losses arising from changes in demographic assumptions	0	20,666	0	598
• Actuarial gains/losses arising from changes in financial assumptions	63,234	(223,491)	1,431	(5,732)
• Other	0	39,220	0	0
Past service cost	(57)	(135)	0	0
Losses/(gains) on settlement/curtailment	(207)	(358)	0	0
Benefits paid	37,464	39,186	2,358	2,832
Closing balance at 31 March	(1,225,962)	(1,434,039)	(41,382)	(45,082)
	Total Liabilities: Scottish Teachers Superannuation Scheme (All Unfunded) £'000			
	2015/16	2016/17		
Opening balance at 1 April	(31,240)	(29,369)		
Interest cost	(941)	(969)		
Remeasurement (gains) and losses:				
• Actuarial gains/losses arising from changes in financial assumptions	1,049	(4,037)		
• Other	0	1,618		
Benefits paid	1,763	1,736		
Closing balance at 31 March	(29,369)	(31,021)		

Local Government Pension Scheme assets comprised:

Bonds:				
• Corporate	23,095		19,445	
• Government	110,464		134,898	
Sub total bonds	133,559	13.3%	154,343	12.7%
Property:				
• UK Direct	76,320		82,640	
• Property funds - Global	9,038		0	
• Property funds - UK	0		2,431	
Sub total property	85,358	8.5%	85,071	7.0%
Private equity:				
• European	12,051		15,799	
• UK	0		2,431	
• Diversified	0		65,626	
• Global	27,114		42,536	
Sub total private equity	39,165	3.9%	126,392	10.4%
Other investment funds:				
• Infrastructure	2,008		2,431	
• Property	1,004		851	
Sub total other investment funds	3,012	0.3%	3,282	0.3%
Total assets	1,004,213	100.0%	1,215,293	100.0%

Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Discretionary Benefits liabilities have been assessed by Mercer Ltd, an independent firm of actuaries, estimated for the North East Scotland Pension Fund on the latest full valuation of the scheme as at 31 March 2014.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Scottish Teachers Superannuation Scheme	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.9	22.2	24.6
Women	24.8	24.1	24.8	25.7
Longevity at 65 for future pensioners:				
Men	24.4	23.5	-	-
Women	27.6	26.3	-	-
Rate of inflation	2.0%	2.2%	2.0%	2.2%
Rate of increase in salaries	3.5%	3.2%	3.5%	3.2%
Rate of increase in pensions	2.0%	2.2%	2.0%	2.2%
Rate for discounting scheme liabilities	3.5%	2.5%	3.4%	2.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonable possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

Impact on the Defined Benefit Obligation in the Scheme.

	Increase in Net Liability £'000
Longevity (increase by 1 year in life expectancy)	29,692
Rate of inflation (increase by 0.1%)	24,249
Rate of increase in salaries (increase by 0.1%)	5,172
Rate for discounting scheme liabilities (increase by 0.1%)	(23,845)

23. Events after the Balance Sheet Date

The unaudited Annual Accounts were authorised for issue by the Head of Finance on 27 June 2017. Events taking place after this date are not reflected in the annual accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the annual accounts and notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

24. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in the Remuneration Report. The Council nominates elected members to represent the Council on the Boards of many arms length external organisations. During 2016/17 payments to 38 organisations, amounting to £46.9 million (2015/16, 41 organisations, £32.0 million) were made by means of grant support and for the delivery of services. Approval of these grants and service contracts was undertaken in accordance with Council policies and procedures. Details of all members' interests are disclosed on the Council website at www.aberdeencity.gov.uk

Other Public Bodies

The Council is the administering authority for the North East Scotland Pension Fund and it charged the Pension Fund £1.274 million for this service in 2016/17 (2015/16, £1.193 million).

For 2016/17 the Council paid £32.221 million to the Pension Fund representing its employer contributions in respect of current and former employees (2015/16, £28.865 million).

Entities Controlled or Significantly Influenced by the Council

The Council has substantial interests in other entities and the relevant transactions are as follows –

	2015/16		2016/17		Debtors		Creditors	
	Receipts £'000	Payments £'000	Receipts £'000	Payments £'000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Joint Boards								
Grampian Valuation Joint Board	0	1,401	0	1,558				
AECC/Mountwest Ltd	4	1,329	0	1,140	1	533	(250)	
Common Good	2,060	67	1,900	48				
Trust Funds	47	35	297	27				
Aberdeen Sports Village	21	1,546	31	1,195		0		
Sport Aberdeen	688	9,264	486	5,936		55	(122)	
Aberdeen Heat & Power	15	6,735	15	3,097				
NESTRANS	5,405	561	1,139	799	741	639		
SDPA	0	49	0	84		0		
Scotland Excel	0	129	0	141				
Bon Accord Care	41	110	30	45	0	65	(12)	(11)
Bon Accord Support Services	6,315	33,464	1,651	27,202	4,664	2,846	(2,697)	(4,975)
Aberdeen City Integration Joint Board	0	0	117,081	91,258				(4,767)

The majority of these bodies form part of the Council's group accounts which are set out on pages 141 to 159.

25. **Leases**Council as Lessee*Operating Leases*

The Council has entered into a number of land and buildings operating leases. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2016 *	31 March 2017
	£'000	£'000
Not later than one year	1,097	1,350
Later than one year and not later than five years	1,854	1,857
Later than five years	3,639	4,735
	6,590	7,942

* 2015/16 figures amended to reflect updated information

The Council has considered contract arrangements which may contain implied leases. This identified contracts for social care residential services within which it is considered that the Council has the exclusive use of the care homes that it funds. Thus, there is an implied lease in operation within the funding agreement in place. The nature of the lease is operating as the agreements with the service providers are subject to review within the next three years. Given there is the potential to revoke funding within three years and therefore cease implied control of the properties there is no long term commitment.

The future minimum lease payments due under non-cancellable leases in future years is as follows:

	31 March 2016	31 March 2017
	£'000	£'000
Not later than one year	344	373
Later than one year and not later than five years	1,005	1,118
	1,349	1,491

Council as Lessor*Operating Leases*

The Council leases out land and buildings for a variety of purposes. It also leases out hydrogen buses to the two local bus operators. The future minimum lease payments due under non cancellable leases in future years are:

	Land and Buildings		Hydrogen Buses	
	31 March 2016 £'000 *	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	6,644	6,844	80	80
Later than one year and not later than five years	17,483	15,824	193	112
Later than five years	146,930	162,747	0	0
	171,057	185,415	273	192

* 2015/16 figures amended to reflect updated information

26. **Investment Properties**

The following items of income and expenditure have been accounted for in the Comprehensive Income and Expenditure Statement:

	31 March 2016 £'000 *	31 March 2017 £'000
Rental and interest income from investment property	(7,134)	(7,720)
Expenses arising from investment property	1,934	1,763
Revaluation (gains)/losses	(864)	57
Net (gain)/loss	(6,064)	(5,900)

* 15/16 figures restated due to CIPFA reporting requirements being amended from SERCOP based to Council Service based in 16/17

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2015/16	2016/17
	£'000	£'000
Balance at start of the year	84,870	85,937
Additions:		
• Purchases	203	0
Disposals	0	(125)
Net gains/losses from fair value adjustments	864	(47)
Transfers:		
• to/from Property, Plant and Equipment	0	(430)
Balance at end of the year	85,937	85,335

27. Intangible Assets

The Council accounts for its capitalised software licences as intangible assets. Consideration is also given to whether any internally generated software should be included as intangible assets. As at 31 March 2017 no material software has been identified.

Software licences are given a finite useful life based on assessments of the period that the licence is expected to be of use to the Council. The majority of licences have a useful life of five years with a small number having been assessed as having a ten year useful life. Of the latter, a maximum of two years remains of the ten year useful life assigned.

The carrying amount of intangible assets is amortised on a straight line basis. Of the amortisation charged to revenue in 2016/17, £0.031 million was charged to IT Administration and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2015/16	2016/17
	Software	Software
	Licences	Licences
	£'000	£'000
Balance at start of year:		
• Gross carrying amounts	536	536
• Accumulated amortisation	(456)	(505)
Net carrying amount at start of year	80	31
Amortisation for the year	(49)	(31)
Net carrying amount at end of year	31	0
Comprising:		
• Gross carrying amounts	536	536
• Accumulated amortisation	(505)	(536)
	31	0

28. Heritage Assets

i Reconciliation of the Carrying Value of Heritage Assets Held

	City Monuments £'000	Maritime & Social History £'000	Numismatics £'000	Science, Technology & Industry £'000	Art Collection £'000	Civic Insignia £'000	Total Assets £'000
Cost or valuation							
At 1 April 2015	608	1,984	17	10	168,451	300	171,370
Additions	0	11	0	0	0	0	11
Revaluations	0	0	0	0	711	0	711
At 31 March 2016	608	1,995	17	10	169,162	300	172,092
Cost or valuation							
At 1 April 2016	608	1,995	17	10	169,162	300	172,092
Additions	0		0	0	18	0	18
Revaluations	0	0	0	0	754	0	754
Impairment Losses/ (reversals) recognised in the Revaluation Reserve	0	(108)	0	0	0	0	(108)
At 31 March 2017	608	1,887	17	10	169,934	300	172,756

City Monuments

The Council's collection of City Monuments is reported in the Balance Sheet at insurance valuation which is based on market values. The most recent valuations were performed between 2007 and 2010.

Maritime & Social History, Numismatics, Science, Technology & Industry

All three collections are reported in the Balance Sheet at valuation. The curator of each collection determines the valuation based on current values where possible. Due to their nature there is little movement in the market for the sale of these collections and it is often difficult to value an item. For items within the Maritime collection, most were valued between 2002 and 2013. The numismatics collection includes a Mary Queen of Scots coin dated 1555 which was valued in 1992. The Science, Technology & Industry collection includes a Rawlins of London Carriage dated 1817 which was valued in 2001.

Art Collection

The Council's collection of art consists of applied art and fine art. Due to the size of the collection an external valuer was not used to determine the asset worth. For items within applied art, most were valued between 2002 and 2013 where items in the collection were prompted for revaluation when they were loaned to exhibitions or if a similar item was sold at auction.

Civic Insignia

The Council's collection of Civic Insignia is reported in the Balance Sheet at insurance valuation which is based on market values. The most recent valuations were undertaken in 2013.

Additions of Heritage Assets

The following items were added during the year:

	£'000
Film of dust on ruins, 2016 by Sara Barker	18
Net carrying amount at end of year	18

There were no disposals made in the financial year.

ii Heritage Assets: Five Year Summary of Transactions

Due to the nature and number of Heritage Assets held it is deemed impractical to disclose a five year summary of transactions for accounting periods before 1 April 2010.

iii Heritage Assets: Further Information on the Museum's Collections

City Monuments

This collection boasts over 100 monuments from around the Aberdeen City Centre area including the William Wallace Monument by William Grant Stevenson and King Edward VII by Alfred Drury dating back to 1910. Only five monuments have been recognised on the Council's Balance Sheet due to the difficulty in obtaining accurate valuations which reflect the true monuments' value.

Maritime & Social History

The collection is maintained to allow locals and visitors of Aberdeen to see real things relating to the lives of the people who built and sailed the ships, fished the seas and defined the harbour from the medieval period to today's busy oil port. A rich collection of "Captain's Paintings" from the clipper ship era, ship models from 1689 to the present, whaler's harpoons, 14th century jugs traded to Aberdeen from Holland, a fine lighthouse lens assembly, the deck house of a steamer and underwater unmanned remotely controlled vehicles are all presented along with hundreds of other fascinating objects from Aberdeen's long association with the sea.

Numismatics

The main strength of this superb collection is in Scottish coins and banknotes, including no fewer than 16 gold coins, ranging in date from the 13th to the 20th century. In addition to that group are the 14th century coin hoards found in Aberdeen, which are of major European significance. Coins from ancient Greece and Rome are among the City's collection, which also features coinage and banknotes from most countries of the modern world. Communion tokens from churches in Aberdeen, North East Scotland and beyond as well as trade tokens further enhance this assemblage, while a fine range of medals, both commemorative and military, are also included. In line with the Council's capitalisation policy only one item from the collection is reported in the Balance Sheet. This is a Mary Queen of Scots coin dated 1555 valued at £6,300.

Science, technology and industry

This collection records the working lives of the people of Aberdeen and how technology has changed communities, work and leisure. This most important local history collection includes items from Aberdeen's great industries such as granite and local engineering. Tools, machines and photographs give an insight into the work of local craftsmen such as the cooper, joiner and shoemaker. The introduction of gas and new transport systems changed the City and are also represented in the collection, as is the gradual increase in technology in the home and office. This collection seeks to record Aberdeen's continued growth and development. In line with the Council's capitalisation policy only one item from the collection is reported in the Balance Sheet. This is a Rawlins of London Carriage dated 1817 valued at £10,000.

Fine Art Collection

The collection consists of over 14,000 items including paintings, sculptures and other media which are of local, national and international significance. The major strengths of the collections range from the period c.1850 to present day, with particularly rich holdings of the 19th and 20th century Scottish art, early 20th century English art and a growing collection of challenging international art of the 21st century. Artists' portraits and self-portraits form one important collection area as does the unrivalled holding of work by James McBey. The collection also has particularly significant items in terms of both valued and note, including an excellent oil canvas by Francis Bacon "Pope I – Study after Pope Innocent X by Velasquez" which has been valued by the curator at £40 million.

Applied and Decorative Art

The collection comprises over 15,000 items, covering all aspects of applied and decorative art, design and craft and costume and textiles. The collection is particularly strong in the area of ceramics, costume, glass, jewellery, metalwork and textiles, with particular emphasis on Scottish work. An active policy of collecting contemporary British Craft has resulted in one of the most important collections of this type in Scotland. There is a significant group of enamels by the Aberdeen artist James Cromar Watt (1862-1940). The fashion designer Bill Gibb (1943-1988), who was born in Aberdeenshire, is represented by the largest collection of his outfits in the UK along with an archive of over 2,000 fashion sketches, working drawings and notes. In addition, the collection boasts a Lacquer Box valued at £250,000.

Civic Insignia

This small collection of around 10 items consists of insignia relating to civic duties in Aberdeen including items such as badges and chains of office of the Lord and Lady Provost, the Treasurer and the Dean of Guild. Most items boast the Aberdeen City Coat of Arms and date back as early as the 16th century.

Archaeology

These collections reflect the extraordinarily rich archaeological heritage of Aberdeen and the North East of Scotland and the internationally significant excavations which have taken place since the 1970s. The great strength lies in the substantial body of local medieval material, which, owing to special staff expertise in this field, is an important resource for research and interpretation. The collection – which continues to grow as new discoveries are made – also includes many organic objects, such as leather shoes, textile fragments, rope and wooden artefacts, which survived hundreds of years of burial owing to the rare waterlogged soil conditions of Aberdeen. Prehistoric objects from the locality, as well as objects from ancient Greece and Egypt, are also part of the collection. Due to the nature of the items within this collection, it is the Council's opinion that because of their rarity, it is not possible to provide a reliable estimate of the collection's value.

Library & Information Services

Aberdeen City Libraries hold a number of reference collections which could be deemed to be held and maintained principally for their contribution to knowledge and culture. The collection consists of Historic book collections of Local and National significance including:

- Cosmo Mitchell Bequest – a collection of books on the art and execution of dance spanning the late 19th and early 20th centuries;
- Aberdeen in WW2 – a comprehensive photographic record of air-raid damage suffered by Aberdeen during World War Two; and
- James Walker Collection – a collection of books on the theory of music and music scores including some rare examples of early Scottish music.

The Council's Library Service also includes historic directories; the historic local newspaper archive and a photographic archive which is an extensive collection of historical photographs covering buildings, streets and harbour scenes in the City. Due to the immaterial value of these items, this collection has not been disclosed on the Balance Sheet.

Preservation and Management

Each of the collections, with the exception of the Library & Information Service and Civic Insignia is managed by a curator of Aberdeen Art Gallery and Museums in accordance with policies that are approved by the Education, Culture and Sport Committee of the Council. Further information on the management of Heritage Assets is provided in the "Acquisition and Disposal Policy" which has been produced in line with the requirements of the Arts Council in England. Acquisitions are small and primarily made by donation. However, on rare occasions when a particularly important asset is available for purchase, the Council will undertake the purchase provided that it meets the objectives of the Museum and the Council in terms of its collection of Heritage Assets. The policy also sets out that disposals of assets in the collections are the responsibility of the governing body of the museum acting on the advice of professional curatorial staff and will only be disposed of after considering the public interest and implication for the museum's collections. Assets are collated, preserved and managed in accordance with the aforementioned policy. There is a computerised record of all assets held within each collection which contains a brief description of the asset, the artist/author, type of asset and value. Each asset also has a unique identifier for reference purposes.

29. Property, Plant and Equipment

Movements in 2015/16:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PPP Assets included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2015	825,231	908,874	65,053	210,743	23,305	20,761	54,514	2,108,481	186,945
Additions	34,278	28,187	8,799	26,470	1,132	1	32,067	130,934	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	325,027	32	0	0	0	502	0	325,561	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(221,439)	(3,253)	0	0	0	(30)	0	(224,722)	0
Derecognition – Disposals	(4,983)	0	(2,797)	0	0	0	0	(7,780)	(8,059)
Derecognition – Other	0	0	(11,027)	0	0	0	0	(11,027)	0
Reclassifications and Transfers	(637)	13,625	0	0	0	930	(15,325)	(1,407)	0
At 31 March 2016	957,477	947,465	60,028	237,213	24,437	22,164	71,256	2,320,040	178,886
Accumulated Depreciation and Impairment									
At 1 April 2015	(135,576)	(41,773)	(35,264)	(79,364)	0	(191)	0	(292,168)	(8,059)
Depreciation charge	(32,299)	(24,805)	(5,358)	(7,107)	0	(42)	0	(69,611)	(3,081)
Depreciation written out to the Revaluation Reserve	25,121	8	0	0	0	233	0	25,362	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	142,118	386	0	0	0	0	0	142,504	0
Derecognition – Disposals	0	0	2,475	0	0	0	0	2,475	8,059
Derecognition – Other	0	0	11,012	0	0	0	0	11,012	0
At 31 March 2016	(636)	(66,184)	(27,135)	(86,471)	0	0	0	(180,426)	(3,081)
Net Book Value									
At 31 March 2016	956,841	881,281	32,893	150,742	24,437	22,164	71,256	2,139,614	175,805
At 31 March 2015	689,655	867,101	29,789	131,379	23,305	20,570	54,514	1,816,313	178,886

Property, Plant and Equipment

Movements in 2016/17:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PPP Assets included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2016	957,477	947,465	60,028	237,213	24,437	22,164	71,256	2,320,040	178,886
Additions	41,833	21,974	7,370	22,187	1,643	17	126,694	221,718	20
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,322	(10,933)	0	0	0	(360)	0	(7,971)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(29,373)	(42,721)	0	0	0	(3,356)	0	(75,450)	0
Derecognition – Disposals	(6,733)	(155)	(3,428)	0	0	(39)	0	(10,355)	
Derecognition – Other		(2,073)	(1,261)	0	0	(241)	0	(3,575)	0
Reclassifications and Transfers	(1,789)	1,312	0	0	0	(1,897)	0	(2,374)	0
At 31 March 2017	964,737	914,869	62,709	259,400	26,080	16,288	197,950	2,442,033	178,906
Accumulated Depreciation and Impairment									
At 1 April 2016	(636)	(66,184)	(27,135)	(86,471)	0	0	0	(180,426)	(3,081)
Depreciation charge	(27,922)	(26,212)	(6,236)	(7,968)	0	0	0	(68,338)	(3,081)
Depreciation written out to the Revaluation Reserve	353	21,949	0	0	0	0	0	22,302	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	79	18,012	0	0	0	0	0	18,091	0
Derecognition – Disposals	179	16	2,832	0	0	0	0	3,027	
Derecognition – Other	0	354	1,262	0	0	0	0	1,616	0
At 31 March 2017	(27,947)	(52,065)	(29,277)	(94,439)	0	0	0	(203,728)	(6,162)
Net Book Value									
At 31 March 2017	936,790	862,804	33,432	164,961	26,080	16,288	197,950	2,238,305	172,744
At 31 March 2016	956,841	881,281	32,893	150,742	24,437	22,164	71,256	2,139,614	175,805

Depreciation – Useful Lives

The following useful lives have been used in the calculation of depreciation:

- Council Dwellings – up to 25 years
- Other Land and Buildings – up to 60 years
- Vehicles, Plant and Equipment – up to 20 years
- Infrastructure – up to 50 years

Capital Commitments

As at 31 March 2017, the Council has a number of ongoing and new contracts for the construction or enhancement of Property, Plant and Equipment budgeted to cost £289.030 million next year. Similar commitments as at 31 March 2016 were £131.149 million. The major projects are:

- Housing – New affordable housing - £18.3 million
- Housing – Structural repairs to multi storey flats - £10.7 million

- Non Housing – Art Gallery - £7.351 million
- Non Housing – New Aberdeen Exhibition & Conference Centre - £142.008 million
- Non Housing – Aberdeen Western Peripheral Route - £7.132 million
- Non Housing – City Centre Regeneration - £6.168 million
- Non Housing – Stoneywood Primary School - £10.461 million
- Non Housing – Planned renewal & replacement of roads infrastructure - £5.115 million

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by Debbie Wyllie, BSc MRICS and Neil Strachan, BLE MRICS who are Royal Institution of Chartered Surveyors (RICS) Registered Valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the RICS.

The significant assumptions applied in estimating the fair values are:

- Buildings constructed under PPP arrangements have been valued as if they were assets wholly owned by the Council without any deferment.
- Council Dwellings are valued using the Beacon Method which involves full inspection of a sample of properties (Beacons). Full inspection of properties other than Beacon properties is not considered necessary due to the similarity of the property types covered by the Beacons.

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Carried at historical cost	54,406	(78,789)	68,484	191,110	21,359	18,576	16,161	291,307
Valued at fair value as at:								
31 March 2017	9,562	205,166	0	0	0	9,852	0	224,580
31 March 2016	966,184	26,120	0	0	0	980	0	993,284
31 March 2015	0	224,020	0	0	0	0	0	224,020
31 March 2014	0	186,933	0	0	0	0	0	186,933
31 March 2013	1,484	394,425	0	0	0	6,073	0	401,982
31 March 2012	6,218	271,190	0	0	0	4,440	0	281,848
31 March 2011	766,904	43,840	0	0	0	0	0	810,744
31 March 2010	0	135,062	0	0	0	9,385	0	144,447
Total cost or valuation	1,804,758	1,407,967	68,484	191,110	21,359	49,306	16,161	3,559,145

* The historical cost of the assets revalued in the five years stated cannot be accurately confirmed due to disposals and transfers between asset categories taking place since assets have been revalued.

30. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	HRA	General Fund	Total	HRA	General Fund	Total
	2015/16	2015/16	2015/16	2016/17	2016/17	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Capital Financing Requirement	238,232	484,777	723,009	234,682	498,815	733,497
<i>Capital investment</i>						
Property, Plant and Equipment	34,278	96,657	130,935	41,833	179,885	221,718
Investment Properties	0	203	203	0	0	0
Heritage Assets	0	11	11	0	18	18
Loan for National Housing Trust Initiative	0	5,722	5,722	0	(3,804)	(3,804)
<i>Sources of finance</i>						
Capital receipts	(9,087)	(153)	(9,240)	(11,079)	(480)	(11,559)
Government grants and other contributions	(1,325)	(29,982)	(31,307)	(6,736)	(36,663)	(43,398)
Other contributions	0	(32,000)	(32,000)	0	0	0
Sums set aside from revenue:						
• Direct revenue contributions	192	0	192	20	0	20
• Capital for Current Revenue (CFCR)	(21,995)	(13,495)	(35,490)	(22,913)	(3,580)	(26,492)
• Loans fund principal	(5,613)	(11,152)	(16,765)	(6,001)	(10,599)	(16,600)
• PPP liability repayments	0	(1,773)	(1,773)	0	(2,478)	(2,478)
Closing Capital Financing Requirement	234,682	498,815	733,497	229,807	621,114	850,921
<i>Explanation of movements in year</i>						
Increase/(Decrease) in underlying need to borrow	(2,983)	15,245	12,262	(4,574)	123,953	119,379
Assets acquired under PFI/PPP contracts	0	(1,773)	(1,773)	0	(2,478)	(2,478)
Increase/(decrease) in Capital Financing Requirement	(2,983)	13,472	10,489	(4,574)	121,475	116,901

31. Public Private Partnerships (PPP) and Similar Contracts

3R's (Reorganise, Renovate, Rebuild) Schools PPP Scheme

The Council has entered into a 30 year PPP contract for the construction or renovation, maintenance and operation of ten schools. The schools came into operation between May 2009 and April 2011. The Council has rights under the contract to specify the hours and availability of the schools. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct or renovate the schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council has rights to terminate the contract in various circumstances with the consequences of such a termination depending on the reasons for termination.

Property Plant and Equipment

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in note 29.

Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2017 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2017/18	5,193	2,611	6,952	14,756
Payable within two to five years	23,538	11,388	26,729	61,655
Payable within six to ten years	38,270	15,473	30,319	84,062
Payable within eleven to fifteen years	42,193	22,496	26,542	91,231
Payable within sixteen to twenty years	43,646	33,402	21,651	98,699
Payable within twenty one to twenty five years	17,860	18,213	7,561	43,634
Payable within twenty six to thirty years	0	0	0	0
Total	170,700	103,583	119,754	394,037

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2015/16	2016/17
	£'000	£'000
Balance outstanding at start of year	107,836	106,062
Payments during year	(1,774)	(2,478)
Balance outstanding at end of year	106,062	103,584

32. Assets Held for Sale

	2015/16	2016/17
	£'000	£'000
Balance Outstanding at start of year	3,412	3,979
Assets newly classified as held for sale:		
• Property, Plant and Equipment	1,407	2,805
Revaluation losses	0	(480)
Assets sold	(840)	(922)
Balance outstanding at end of year	3,979	5,382

33. Inventories

	Consumable Stores & Maintenance Materials		Client Services Work In Progress		Property Acquired or Constructed for Sale		Total	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
Balance outstanding at start of year	1,425	1,627	49	16	31	31	1,505	1,674
Purchases	15,755	13,777	25,840	24,824	43	50	41,638	38,651
Recognised as an expense in the year	(15,553)	(13,803)	(25,873)	(24,824)	(43)	(53)	(41,469)	(38,680)
Balance outstanding at end of year	1,627	1,601	16	16	31	28	1,674	1,645

34. Short Term Debtors

	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	14,978	14,043
Other local authorities	3,567	2,639
NHS bodies	390	5,338
Public corporations and trading funds	891	317
Other entities and individuals	92,438	111,313
Gross Total	112,264	133,650
Deduct: Provision for Impairment	(52,184)	(54,973)
Net Total	60,080	78,677

35. Short Term Creditors

	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	(11,052)	(8,747)
Other local authorities	(13,491)	(675)
NHS bodies	(934)	(4,900)
Public corporations and trading funds	(4,437)	(5,051)
Other entities and individuals	(57,758)	(70,991)
Total	(87,672)	(90,364)

36. Provisions

	Note 1	Note 2	Note 3	Note 4	
2016/17	Compensation Payments - Equal Pay £'000	Property - Asset Management £'000	Housing Benefit Subsidy £'000	Other £'000	Total £'000
Balance at 1 April 2016	(921)	(749)	(100)	(3,349)	(5,119)
Additional provisions made in 2016/17	0	(185)	0	(867)	(1,052)
Amounts used in 2016/17	535	255	0	54	844
Unused amounts reversed in 2016/17	186	0	0	229	415
Balance at 31 March 2017	(200)	(679)	(100)	(3,933)	(4,912)
<i>Represented by:</i>					
Current provisions	(200)	0	(100)	(3,933)	(4,233)
Long term provisions	0	(679)	0	0	(679)

Notes on Provisions –

1. **Compensation Payments-Equal Pay - £ 0.200 million**

This is a provision for arrears of equal pay under Single Status legislation for the period from June 2006, subsequent to compromise settlements already paid. The primary groups of staff involved are employed in the Cleaning, Catering, Education and Social Work services. This provision may have an extended life due to uncertainty in relation to Employment Tribunal outcomes which may also alter the amounts due.

2. **Property-Asset Management - £0.679 million**

Provisions are held for a number of properties leased by the Council against the cost of dilapidations that need to be made good upon the conclusion of existing lease periods. The timing of these provisions being utilised varies with the property, with all current leases terminating between 2017 and 2020. The provision is based upon an annual assessment carried out by the Council's quantity surveyors. While the timing of the outflows is reasonably certain, the final value of the works required is subject to variation. A further amount is held to reimburse a third party for costs incurred by them on demolishing a council owned building.

3. **Housing Benefit Subsidy - £0.100 million**

This Provision is for potential claw back by the Department of Works and Pensions (DWP) for overpayments on the Housing Benefit Subsidy Grant. Liability will depend on the outcome of the audit scrutiny, testing and a final determination by DWP. The figure is based on a worst case scenario by the Corporate Debt/Income Manager. The full liability could be called upon in 2017/18.

4. **Other**

- **General Fund - £1.428 million**

This provision relates to outstanding claims against the Council. These are in relation to environmental services and other potential compensation payments.

- **Holiday Pay - £0.826 million**

This is a provision for arrears of Holiday Pay due based on the decision in the case of Lock v British Gas Trading Ltd which reviewed the basis of calculation for holiday pay. The full liability could be paid out in 2017/18.

- **Council Tax Discount on Second Homes and Long Term Empty Properties - £0.469 million**

This provision relates to amounts committed towards affordable housing projects, which could be released in 2017/18.

- * **HRA - £1.025 million**

This provision relates to a potential ICO penalty notice and voluntary disclosure required for VAT.

- * **HMRC liability - £0.104 million**

This provision relates to a potential liability from HMRC regarding VAT payments due to be agreed and settled.

- * **Referendum Grant overpayment - £0.080 million**

This provision is to allow for repayment of a grant for the 2016 Referendum, as expenditure incurred is below the advance payment received from the Government.

37. **Contingent Liabilities**

At 31 March 2017 the Council had material contingent liabilities as undernoted:

- * **Aberdeen Science Centre (formerly Satrosphere)**

The Council has agreed to provide a guarantee to the Bank of Scotland for the sum of £128,923 in support of an overdraft facility and card transactions until 31 March 2018.

- * **Transition Extreme Sports Ltd**

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a loan of £37,139 and a maximum overdraft facility of £250,000 as well as a guarantee of £237,215 to Social Investment Scotland in respect of an 11 year loan which is due to be repaid by June 2025.

* **Landfill Sites**

The Council is responsible under environmental legislation for the ongoing monitoring, maintenance and ultimately capping and re-instatement of 3 closed landfill sites. The costs associated with two of these sites, Ness and Hill of Tramaud, have been accounted for through a mix of revenue and capital funding.

The third site at Mill of Dyce was previously operated by the Council under a lease. The Council purchased the site in 2012/13, and following an assessment of the environmental monitoring and reinstatement requirements works were carried out in 2014. The works are now complete with no further activity planned for the site.

* **Waste Disposal**

The Council has a long term contract with an external contractor for the disposal of all relevant waste arising in the City and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. The contract commenced in September 2000 and is due to run for 25 years.

* **Landfill Allowance Scheme (LAS)**

The Scottish Government had previously introduced a scheme under which Local Authorities were to be penalised for exceeding landfill tonnage targets. The penalties have never been imposed and it is expected that the regulations will be repealed in due course. However, until such a repeal is formalised there remains a potential liability on the Council.

* **External Organisations - Guarantor in relation to North East Scotland Pension Fund (NESPF)**

As the administering authority, the Council may admit a body to the Pension Fund as an 'admitted body' provided (i) the organisation can confirm they have sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest; and (ii) the Scheme employer is prepared to act as guarantor in the event the admitted body should cease to exist. If this situation was to occur and staff made redundant the staff over 50 years old would become entitled to immediate payment of their pension benefits. The Council has agreed a number of such guarantees to organisations that include Aberdeen Sports Village, Sport Aberdeen, Aberdeen Performing Arts, Aberdeen International Youth Festival, Aberdeen Heat and Power, Bon Accord Support Services and Bon Accord Care Ltd. The potential values guaranteed are subject to a range of actuarial assumptions.

* **Sport Aberdeen**

The Council agreed to provide a bank guarantee to Sport Aberdeen to a maximum of £5 million over a 5 year period for investment in Council leisure facilities, as approved at the 7 June 2016 Finance, Policy and Resources Committee. There is currently a guarantee being drawn up for an RCF facility for £1.4 million for Sport Aberdeen.

* **SEEMIS Group LLP**

The Council has agreed to fund any additional pension liability payments arising from its membership of the SEEMIS organisation (the provider of our schools' Management Information System). To date there has been no call on the guarantee.

* **Scottish Child Abuse Enquiry**

The Scottish Child Abuse Enquiry is a national enquiry which was set up on 1 October 2015. The Council recognises a potential liability in respect of claims from this enquiry, but is not aware of any specific claims at this time.

38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2015/16 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income		
Total Revenue Funding Grant	341,155	333,781
Total	341,155	333,781
Credited to Services		
Department of Work and Pensions		
Housing Benefit Grant	54,912	56,561
Housing Benefit Admin Grant	900	762
Discretionary Housing Payment	289	341
Other	133	172
Grampian Health Board		
Resource Transfer	19,133	19,124
Integrated Care Funding	581	5,809
Other Local Authorities		
Western Peripheral Route Works	11,276	7,042
Other	352	88
Scottish Government		
S27 Community Justice Grant	4,325	4,430
Home Insulation	1,113	1,073
Zero Waste Scotland	111	0
Education Maintenance	287	321
Attainment Challenge	11 *	215
Other	1,343 *	1,394
Department for Culture, Media and Sport		
Accelerate Aberdeen	121	50
European Funding		
Hydrogen Bus Project	482	640
Other	107	99
Home Office		
Syrian Refugee Resettlement Programme	42 *	219
Other	50 *	44
Sport Scotland	406	458
Scottish Legal Aid Board	271	135
Creative Scotland	438	338
Heritage Lottery Fund	181	187
Transport Scotland	254	264
Other	206	267
Total	97,324	100,033

* 2015/16 figures have been updated to show the Attainment Grant and Syrian Refugee Resettlement Programme grant separately. These were previously part of 'other'.

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year end are as follows:

	2015/16	2016/17
	£'000	£'000
Revenue Grants - Receipts in Advance		
Social Care & Wellbeing (Telecare, Kinship Care, Luggage)	95	11
Self Directed Support / Caledonian Funding	304	0
Bequest / Europe Direct for Libraries	21	50
Creative Scotland – Various Projects	17	232
Education Scotland	84	15
Scottish Government	0	78
Home Office Refugee Funding	0	79
Community Safety Hub Funding	0	9
Total	521	474
Capital Grants - Receipts in Advance		
Gypsy Traveller Grant	103	103
Public Wireless Programme Grant	0	7
Sport Scotland Grant	200	0
Mental Health Grant	97	0
Henry Rae Community Centre Regeneration Grant	1,414	0
Scottish Government Flood Grant	407	407
Total	2,221	517

39. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Instruments Balances	Long term		Current	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Investments				
Loans and receivables	0	0	31,119	141,227
Available for sale financial assets	19,061	18,656	0	0
Total investments	19,061	18,656	31,119	141,227
Debtors				
Loans and receivables	19,577	7,311	0	0
Financial assets carried at contract amount	0	0	60,080	78,677
Total debtors	19,577	7,311	60,080	78,677
Borrowings				
Financial liabilities at amortised cost	(464,892)	(900,871)	(113,348)	(81,351)
Total borrowings	(464,892)	(900,871)	(113,348)	(81,351)
Other Long term Liabilities				
PPP liabilities	(103,584)	(100,973)	(2,478)	(2,611)
Total other long term liabilities	(103,584)	(100,973)	(2,478)	(2,611)
Creditors				
Financial liabilities carried at contract amount	(223)	(108)	(87,672)	(90,364)
Total creditors	(223)	(108)	(87,672)	(90,364)

Notes:

The Council undertook a £370 million Bond Issuance during the year, receiving a premium of £44 million. This is reflected in the table above within "Borrowings, Financial Liabilities at Amortised Cost"

Lenders Option/Borrowers Option (LOBO's) of £25.9m have been included in long term borrowing but have a call date in the next 12 months

Reclassifications

Income, Expense, Gains and Losses

Financial Instruments Gains/(Losses)	2015/16			*	2016/17		
	Financial Liabilities	Financial Assets	Total		Financial Liabilities	Financial Assets	Total
	Measured at amortised cost £'000	Loans and receivables £'000	£'000		Measured at amortised cost £'000	Loans and receivables £'000	£'000
Interest expense	(31,091)	0	(31,091)		(35,072)	0	(35,072)
Total expense in Surplus or (Deficit) on the Provision of Services	(31,091)	0	(31,091)		(35,072)	0	(35,072)
Interest income	0	1,167	1,167		0	771	771
Total income in Surplus or (Deficit) on the Provision of Services	0	1,167	1,167		0	771	771
Net gain/(loss) for the year	(31,091)	1,167	(29,924)		(35,072)	771	(34,301)

* 15/16 figures restated

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2017 of 2.95% to 11.00% for loans from the PWLB and 3.98% to 5.00% for other loans receivable and payable, based both on both a new loan rate basis and a fair value basis at that date;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair Value of Liabilities	31 March 2016					31 March 2017				
	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value (Premature Repayment) £'000	Fair Value (New Loan Rates) £'000	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value (Premature Repayment) £'000	Fair Value (New Loan Rates) £'000
PWLB – maturity	(393,465)	(6,701)	(400,165)	(639,686)	(538,953)	(398,880)	(6,771)	(405,651)	(724,959)	(598,474)
PWLB – annuity	0	0	0	0	0	0	0	0	0	0
PWLB – EIP	(196)	(8)	(204)	(207)	(207)	0	0	0	0	0
LOBOs	(93,893)	(665)	(94,560)	(160,613)	(127,076)	(93,893)	(698)	(94,592)	(183,473)	(148,361)
Bond Issue	0	0	0	0	0	(372,174)		(372,174)	(284,243)	(244,619)
Bond Premium	0	0	0	0	0	(43,835)	0	(43,835)	(42,113)	(42,113)
Transfer Interest to Short Term in line with Code requirements	0	7,374	7,374	0	0	0	7,469	7,469	0	0
Transfer borrowing repayable with 12 months to Short Term in line with Code requirements	0	0	24,781	0	0	0	0	10,000	0	0
Financial Instrument Adjustments	0	0	(2,118)	0	0	0	0	(2,088)	0	0
Total Long Term Borrowing	(487,554)	0	(464,892)	(800,506)	(666,236)	(908,782)	0	(900,871)	(1,234,788)	(1,033,567)
Short term borrowing	(81,125)	(69)	(81,194)	(81,194)	(81,194)	(63,836)	(46)	(63,883)	(63,883)	(63,883)
Transfer Interest from Long Term in line with Code requirements	0	(7,374)	(7,374)	0	0	0	(7,469)	(7,469)	0	0
Transfer borrowing repayable with 12 months from Long Term in line with Code requirements	0	0	(24,781)	0	0	0	0	(10,000)	0	0
Total Short Term Borrowing	(81,125)	(7,443)	(113,349)	(81,194)	(81,194)	(63,836)	(7,515)	(81,352)	(63,883)	(63,883)

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates. From 2015/16, the Fair Value of borrowings is shown at both Premature Repayment rates and New Loan rates. In prior years, the Fair Value of borrowings had been shown only on a New Loans rates basis.

Fair Value of Assets	31 March 2016				31 March 2017			
	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value £'000	Principal Outstanding £'000	Accrued Interest £'000	Carrying Amount £'000	Fair Value £'000
Deposits with banks/building societies	46,627	99	46,726	46,740	309,374	207	309,581	309,638

The above deposits are shown within Cash and Cash Equivalents and Short Term Investments in the Balance Sheet.

40. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments; and
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in its annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by the Council's Treasury Advisers. The Annual Investment Strategy also imposes a maximum sum of £50 million to be invested with a financial institution located within the highest category for a maximum duration of 12 months.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £309.4m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions:

Estimated maximum exposure at 31 March 2016 £'000		Amount at 31 March 2017 £'000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2017 %	Estimated maximum exposure to default and uncollectability at 31 March 2017 £'000
		A	B	C	(A x C)
0	Deposits with banks and building societies	309,581	0	0	0
1,056	Customers	28,988	4.20%	4.20%	1,217
1,056					1,217

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non performance by any of its counterparties in relation to deposits and bonds. The Council does not generally allow credit for customers, however £29.0m is past its due date for payment. The past due amount can be analysed by age as follows:

Credit Risk B	31 March 2016 £'000	31 March 2017 £'000
Less than three months	7,737	11,390
Three to six months	1,575	1,398
Six months to one year	2,337	1,685
More than one year	14,822	14,515
	26,471	28,988

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that not more than 20% of loans are due to mature within any financial year and 50% within any rolling five year period through a combination of prudent planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities is as follows:

	31 March 2016	31 March 2017
	£'000	£'000
Less than one year	115,466	84,313
Between one and two years	10,000	23,447
Between two and five years	38,447	25,000
Between five and ten years	11,000	1,000
More than ten years	403,328	805,501
	578,241	939,261

In the "More than 10 years" category in the table above there are £25.9 million of LOBOs which have a call date in the next 12 months. All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

£370 million of the Council's borrowings are in the form of a bond which is index-linked to RPI. The amount of principal and interest to be paid is therefore dependent on changes in RPI. For example, a 1% increase in the rate of RPI compared to the prevailing rate would result in an annual increase of £0.4 million in amounts repayable.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	259
Increase in interest receivable on variable rate investments	(1,091)
Impact on Surplus or Deficit on the Provision of Services	(832)
Share of overall impact debited to the HRA	(210)
Decrease in fair value of fixed rate investment assets	0
Impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowings liabilities due to a 1% rise in discount rates (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	164,727
Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	297

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Foreign exchange risk

The Council operates a Bank Account denominated in Euros but has no exposure to loss arising from movements in exchange rates.

Loans Fund

The Loans Fund is the central financing agency of the Council. It is an accounting arrangement which simplifies on the one hand expenditure on various capital projects and, on the other hand, the borrowing of money to finance such projects. Effectively the Council's services borrow from the Loans Fund to finance their capital expenditure and the Loans Fund in turn borrows from the Government through the Public Works Loan Board or from the London Money Market. At the end of each financial year the capital expenditure incurred by services is added to their prior year's expenditure to reflect the total debt owed by each service to the Loans Fund.

Each year the service's accounts repay a proportion of the sums previously borrowed, based on the life of the asset, along with a share of the interest paid on loans and expenses of managing the Loans Fund. All interest and management expenses are initially paid by the Loans Fund and then recharged to service accounts at an average rate which is sufficient to recover each year's expenditure in full. For 2016/17, the average interest rates were 3.46% for capital (2015/16, 3.84%), 0.27% for revenue advances (2015/16, 0.40%) and 0.02% for expenses (2015/16 0.02%) on raising loans.

The management of all money and capital market transactions in connection with cash and funding resources for the Council has been carried out in accordance with the Council's Treasury Policy Statement as recommended by the CIPFA Code of Practice for Treasury Management in Local Authorities.

Amounts Borrowed from the Loans Fund

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
General Fund	373,161	408,526	402,839	397,654	396,557	397,314	413,355	538,587
Trading Operations	24,911	23,257	22,678	24,282	23,083	21,283	20,486	19,207
Housing Revenue Account	163,850	185,923	193,225	196,880	196,665	196,675	193,692	189,118
Total	561,922	617,706	618,742	618,816	616,305	615,272	627,533	746,912

Loans Fund			Loans Fund		
Revenue Account			Balance Sheet as at 31 March		
2015/16 £'000		2016/17 £'000	2016 £'000		2017 £'000
	Expenditure			Assets	
24,050	Interest paid to External Bodies	24,257		Advances to:	
1,042	Interest paid to Other Council Accounts	516	627,534	Aberdeen City Council for Capital Expenditure	746,913
139	General Expenses	134	2	Other Bodies	2
25,231		24,907	14,010	Rescheduled Premiums	13,613
	Income		641,546		760,528
	Interest & Expenses charged to Aberdeen City Council			Current Assets	
(15,945)	General Fund	(16,649)	46,600	Temporary Investments	309,350
(7,965)	Housing Revenue Account	(6,911)	125	Sundry Debtors	230
(816)	Trading Operations	(693)	2,371	Bank	(624)
(505)	From Temporary Investments	(654)	690,642		1,069,484
(25,231)		(24,907)		Less: Current Liabilities	
			128,019	Temporary Advances from Council Services	111,930
			7,443	Sundry Creditors	7,515
			135,462		119,445
			555,180	Net Assets	950,039
				Financed by:	
			(393,661)	Public Works Loan Board	(398,880)
			(93,893)	Market Loans	(93,893)
			0	Negotiable Bonds	(369,529)
			(2)	Bond Premium	(42,114)
			(2)	Stock Issue & Gas Annuities	(2)
			(67,624)	Temporary Loans	(45,621)
			(555,182)		(950,039)

Steven Whyte, CPFA
Head of Finance

26 September 2017

Housing Revenue Account

This represents the statutory requirement to account for local authority housing provision as defined in the Housing (Scotland) Act 1987.

Housing Revenue Account Income and Expenditure Statement

2015/16 £'000		2016/17	
		£'000	£'000
	Income		
(81,142)	Dwelling Rents	(81,866)	
(3,892)	Non dwelling Rents	(3,605)	
0	Hostel Grant	0	
(1,021)	Other Income	(2,094)	
(86,055)			(87,565)
	Expenditure		
841	Staff Costs	632	
841			632
	Premises Costs:		
25,317	Repairs and Maintenance	26,955	
3,067	Maintenance of amenity areas	3,079	
2,166	Bad debts written off/provisions	2,811	
1,790	Loss of rent vacant periods	1,226	
1,855	Other costs	2,389	
34,195			36,460
	Administration Costs:		
8,418	Management and Administration	8,162	
964	Other costs	1,004	
9,382			9,166
	Supplies and Services:		
3,698	Communal Lighting and Heating, etc.	3,678	
196	Information Technology	160	
157	Other Costs	165	
4,051			4,003

2015/16 £'000		2016/17	
		£'000	£'000
	Agencies:		
194	Contributions	215	
305	Supporting People Contribution	102	
689	Tenant's Participation/Helpines	662	
1,188			979
	Capital Charges:		
32,299	Depreciation	27,922	
79,320	Impairment of Non Current Assets	32,373	
111,619			60,295
161,276	Gross Expenditure		111,535
	Net Cost of HRA Services per Council's Comprehensive Income and Expenditure Statement		
75,221			23,970
144	Corporate and Democratic Core	157	
			157
75,365	Net Cost of HRA Services		24,127
(3,071)	(Gain) / Loss on Sale of HRA Non Current Assets	(3,584)	
7,965	Interest payable and similar charges	6,912	
(147)	Interest and investment income	(80)	
512	Pensions interest and return on assets	286	
(1,325)	Non Specific Grant Income/Contributions (Affordable Housing Contribution for Council Tax)	(6,736)	
79,299	(Surplus)/deficit for the year on HRA Services		20,925

Movement on the Housing Revenue Account Statement

2015/16 £'000		Notes	2016/17 £'000
(10,455)	Balance on the HRA at start of Year		(10,808)
79,299	(Surplus) or Deficit for the Year on HRA Income and Expenditure Statement		20,925
(79,839)	Adjustments between Accounting Basis and Funding Basis Under Statute	1	(21,425)
(540)	Net (Increase) or Decrease Before Transfers to or (from) Reserves		(500)
187	Transfers to or (from) Reserves	2	0
(353)	(Increase) or Decrease in Year on the HRA		(500)
(10,808)	Balance on the HRA at end of Year		(11,308)

Housing Revenue Account Disclosures

1. Adjustments between Accounting Basis and Funding Basis under Statute

2015/16 £'000		2016/17 £'000
3,071	Gain or (loss) on sale of HRA non-current assets	3,584
21,994	Capital expenditure funded by the HRA	22,913
	Transfer to/from the Capital Adjustment Account:	
(111,619)	Depreciation and Impairment	(60,295)
1,325	Capital Grants and Contributions	6,736
5,613	Repayment of Debt	6,001
(828)	HRA share of contributions to or from the Pensions Reserve	(376)
4	Adjustment involving the Accumulated Absences Account	12
601	Other Adjustments	0
(79,839)		(21,425)

2. Transfers (to) or from Reserves

2015/16 £'000		2016/17 £'000
187	Transfer to/(from) the General Fund	0
187	Total	0

3. Housing Stock

The Council's housing stock at 31 March 2017 was 22,272 (22,435 at 31 March 2016) in the following categories:

2015/16 Number	Type of Property	2016/17 Number
2,065	Sheltered Property	2,049
4,386	Cottage	4,280
8,733	Flat	8,666
2,157	Four in Block	2,139
552	Maisonette	548
2,110	Multi Storey Flat	2,167
120	Split Level Flat	122
436	Multi Storey Maisonette	431
1,198	Amenity	1,264
358	Homeless	379
22,115	Sub Total	22,045
320	Properties off the charge	227
22,435	HRA Total	22,272
	Other Assets	
1	Hostel	1
245	Garages Sites	241
2,053	Lock Up Garages	2,042
916	Parking Spaces	911
17	Travelling Peoples Sites	17
3,232		3,212

4. Rent Arrears

2015/16		2016/17
£'000		£'000
4,043	Current Tenant Arrears	3,257
2,704	Former Tenant Arrears	1,280
6,747	Total Rent Arrears	4,537

5. Impairment of Debtors

In 2016/17 an impairment of £3,857,000 has been provided in the Balance Sheet for irrecoverable rents, a decrease of £1,300,000 from the provision in 2015/16.

National Non Domestic Rates

National Non Domestic Rates (NNDR) income is collected by local authorities and remitted to the Scottish Government, where it is pooled nationally, and re-distributed back to local authorities along with the Revenue Support Grant.

Occupiers of non-domestic property continue to pay rates based on the valuation of the property as compiled by the Grampian Valuation Joint Board. The non domestic rate (NDR) poundage for 2016/17, which is set annually by the Scottish Ministers, is 48.4 pence. There is also a small supplement on the poundage rate of 2.6 pence for subjects with a rateable value greater than £35,000 to cover the additional costs of the Small Business Bonus Scheme. In 2015/16, the NDR poundage rate was set at 48.0 pence and the supplement was 1.3 pence. The table below details the actual levels of NNDR billed by Aberdeen City Council, and the amount that the Council is entitled to receive under the National Pooling arrangement.

2015/16 £'000		2016/17	
		£'000	£'000
(230,006)	Gross Rates Levied and Contributions in Lieu		(243,859)
	<i>Deduct:</i>		
26,805	Reliefs, remissions, etc.	28,961	
	Payment of Interest		
2,208	Write off of uncollectable debts and allowances for impairment	3,058	32,019
(200,993)	Net Non Domestic Rate Income		(211,840)
2,126	Adjustment to previous years' National Non Domestic Rates		2,315
(198,867)	Contribution to Non Domestic Rate Pool		(209,525)
(210,116)	Distribution from Non Domestic Rate Pool		(215,586)
	<i>Add:</i>		
(267)	Adjustment for Statutory Additions and others		663
0 *	BRIS Income Retained	0	
(267)			0
	<i>Less:</i>		
380	Charity Relief adjustment		342
(210,003)	Income credited to the Comprehensive Income and Expenditure Statement *		(214,581)

* The figure for 2016/17 assumes that no excess will be retained by the Council for exceeding the Business Rates Incentivisation Scheme (BRIS) target in 2016/17.

Category	Number of Subjects	Rateable Value at 1 April 2017 £'000
Shops	2,196	104,520
Public Houses	164	8,407
Offices	2,540	195,087
Hotels	372	23,863
Industrial Factories, Warehouses, Stores	1,952	146,126
Leisure Entertainment, Caravans and Holiday Sites	315	14,463
Garages and Petrol Stations	213	5,516
Cultural	12	913
Sporting Subjects	24	476
Education & Training	163	34,310
Public Service Subjects	198	17,924
Communications	32	2,380
Quarries, Mines etc.	9	128
Petrochemical	2	792
Religious	135	2,708
Health / Medical	124	15,825
Other	818	10,791
Care Facilities	124	5,868
Advertising	138	571
Undertaking	12	2,028
Total Non Domestic Rates Subjects	9,543	592,696

Council Tax

Local authorities raise taxes from its residents through the Council Tax which is a property tax linked to property values. Each dwelling in Aberdeen City is placed into one of eight valuation bands (A to H), as determined by Grampian Valuation Joint Board. The Council determines the annual tax for a band D property and all other properties are charged a proportion of this, with lower valued properties (Bands A to C) paying less, and higher valued properties (E to H) paying more. All domestic dwellings that appear on the valuation list are liable for the tax, but in some circumstances, for example single occupancy, discounts can apply, and some dwellings, for instance students' residences and certain unoccupied dwellings, are exempt.

In 2016/17, for Band D properties, the Council's Council Tax was frozen at £1,230.39. The full range of bandings is set out after the Council Tax Income Account.

Council Tax Income Account

2015/16		2016/17
£'000		£'000
(136,714)	Gross Assessments	138,129
(753)	Net band adjustments	1,034
(137,467)	Council Tax Collectable	139,163
	<i>Deduct:</i>	
9,897	Exemptions	(11,058)
62	Disabled Relief	(62)
12,095	Discounts	(12,514)
2,725	Provision for non collection	(3,142)
9,051	Council Tax Reduction	(9,340)
102	Other	(260)
(103,536)		102,787
	<i>Add:</i>	
(1,162)	Statutory Additions	1,159
(1,469)	Prior Year Adjustments	238
(2)	Write Ons	7
(106,169)	Net Council Tax income for the Year	104,191
(1)	Arrears of Community Charge (Poll Tax) recovered during the year	0
(106,170)	Net Council Tax income transferred to General Fund	104,191

The calculation of the Council Tax Base 2016/17:

	Number of Dwellings	Number of Exemptions	Disabled Relief	Discounts 25%	Discounts 50%	Total Dwellings	Ratio to Band D	Band D Equivalents
Band A (subject to disabled relief)			6			6	5/9	3
Band A	22,876	(3,450)	23	(3,085)	(358)	16,006	6/9	10,671
Band B	28,132	(2,349)	8	(3,272)	(340)	22,179	7/9	17,250
Band C	18,878	(1,553)	(12)	(1,647)	(220)	15,446	8/9	13,731
Band D	15,085	(2,197)	12	(1,257)	(206)	11,437	9/9	11,438
Band E	14,320	(648)	(3)	(1,045)	(146)	12,478	11/9	15,251
Band F	8,423	(221)	(1)	(486)	(67)	7,648	13/9	11,049
Band G	7,496	(138)	(30)	(305)	(66)	6,957	15/9	11,597
Band H	963	(22)	(3)	(24)	(19)	895	18/9	1,792
							Total	92,782
							Council Tax Reduction	(9,262)
							Contributions in Lieu	6
							Provision for Bad Debts (2.4%)	(2,227)
							Council Tax Base	81,299

All dwellings fall within a valuation band between A to H which is determined by Grampian Valuation Joint Board. The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. This value is then increased or decreased depending on the band. Based on the Council Tax base available to Aberdeen City Council, the band D charge for 2016/17 was £1,230.39 (2015/16 £1,230.39)

Property Value (£)	Band	Proportion of Band D	Council Tax Level (£)
27,000 or under	A	6/9	820.26
27,001 – 35,000	B	7/9	956.97
35,001 – 45,000	C	8/9	1,093.68
45,001 – 58,000	D	9/9	1,230.39
58,001 – 80,000	E	11/9	1,503.81
80,001 – 106,000	F	13/9	1,777.23
106,001 – 212,000	G	15/9	2,050.65
Over 212,000	H	18/9	2,460.78

Common Good

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land and buildings, such as industrial estates and farms, with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

Movement in Reserves Statement

	Common Good Fund £'000	Reserves Fund £'000	Total Common Good £'000
Balance at 1 April 2015	(105,666)	(68)	(105,734)
<u>Movement in Reserves during 2015/16</u>			
(Surplus) or Deficit on provision of services	(6,758)	0	(6,758)
Total Comprehensive Expenditure and Income	(6,758)	0	(6,758)
Balance at 31 March 2016 carried forward	(112,424)	(68)	(112,492)
<u>Movement in Reserves during 2016/17</u>			
(Surplus) or Deficit on provision of services	1,317	0	1,317
Total Comprehensive Expenditure and Income	1,317	0	1,317
Balance at 31 March 2017	(111,107)	(68)	(111,175)

Comprehensive Income and Expenditure Statement

2015/16		2016/17		
Net (Income) Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net (Income) Expenditure £'000
14	Official Catering	10	0	10
63	Administration Costs	68	0	68
1,355	Donations, Grants, Contributions etc.	1,397	0	1,397
325	Civic Hospitality	185	0	185
113	Funding of International Budget	102	0	102
106	Christmas Illuminations & Festivities	113	0	113
201	Civic Administration Unit	197	0	197
81	Other Projects	78	0	78
479	Miscellaneous Expenditure	386	0	386
64	Greenfern Master plan	9	0	9
122	Duthie Park HLF	127	0	127
2,923	Cost Of Services	2,672	0	2,672
	Other Operating Expenditure:			
(1,764)	Gains/losses on the disposal of non current assets			(4,382)
	Financing and Investment Income and Expenditure:			
(2,734)	Investment property income & expenditure			(2,960)
(283)	Interest receivable and other investment income			(192)
(1,858)	(Surplus) or Deficit on Provision of Services			(4,862)
(4,898)	(Surplus) or Deficit on revaluation of investment property			6,179
(6,756)	Total Comprehensive Income and Expenditure			1,317

Balance Sheet

31 March 2016		31 March 2017
£'000		£'000
95,531	Investment Property	89,046
95,531	Long Term Assets	89,046
16,881	Investments in Aberdeen City Council Loans Fund	21,918
61	Investment Property Held for Sale	61
470	Short Term Debtors	472
17,412	Current Assets	22,451
(451)	Short Term Creditors	(322)
(451)	Current Liabilities	(322)
112,492	Net Assets	111,175
(112,424)	Common Good Fund	(111,107)
(68)	Reserve Fund	(68)
(112,492)	Total Reserves	(111,175)

Steven Whyte, CPFA
Head of Finance

26 September 2017

The property portfolio was valued internally by Debbie Wyllie, BSc MRICS and Neil Strachan, BLE MRICS who are RICS Registered Valuers, in accordance with the Statement of Assets Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors (RICS).

Trust Funds and Endowments

The Council is responsible for the administration of various Trusts. They have been created by bequest or by public subscription and are utilised for a variety of purposes in line with the trusts purposes identified in their governing documents. The money earned from the investments of the trusts is used for the maintenance of graves and monuments, the administration of the Guildry and its awards, school prizes and the advancement of art and the purchase of works of art. As well as administering the trusts, the Council is also the appointed trustee for all the trusts with the exception of Marguerite McBey Trust which has two Councillors on the board of Trustees.

This section gives summary details of the income and disbursements relating to these trusts, together with a summary of the balances of the trusts at 31 March 2017 and details of how the balances were invested at that date. A detailed breakdown of the separate individual trust accounts can be obtained from the Head of Finance.

Included in these funds are 9 Trusts which are registered as Scottish charities under the Charities and Trustee Investment (Scotland) Act 2005. A separate audited Annual Report and Accounts for the council's registered Charitable Trusts is submitted to OSCR within statutory deadlines.

In addition to these Trusts there are a number of independent Trusts which are separately supported and administered by the council e.g. the Chris Anderson Trust and the Aberdeen International Youth Festival Trust. Accounting information for these organisations is not included in this document.

Trust Funds have been incorporated into the Group accounts on the basis that they are entirely controlled by the Council, which appoints 100% of the trustees. However, it is acknowledged that the funds belong to the Trusts and that they may be used solely for the purposes specified in the Trust articles. The assets are not the property of the Council. The Common Good Fund has investments in the Lands of Skene Trust (30%) and the Lands of Torry Trust (51%).

Trusts reorganisation work is ongoing. The John Murdoch Henderson Trust (part of SC025063, EEIF) was re-organised through the adoption of a revised constitution in 2015. OSCR deemed that the purpose of the Bridge of Don and the Bridge of Dee funds is the advancement of heritage. Work is underway on reorganising these charities by the adoption of a new constitution for the Bridge of Don Trust and the winding up of the Bridge of Dee trust by the transfer of its remaining assets to the Bridge of Don Fund. Work is also underway on the creation of a new constitution for the Guildry.

Movement in Funds

Charity	Balance as at 31 March 2016 £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2017 £'000
EEIF	(169)	(20)	(3)	9	(183)
Guildry	(2,670)	(40)	(15)	23	(2,702)
Bridge of Don	(1,369)	(30)	(5)	153	(1,251)
Bridge of Dee	(34)	0	0	1	(33)
Alexander MacDonald Bequest	(32)	0	0	0	(32)
Aberdeen Art Gallery Trust	(45)	0	0	19	(26)
Lands of Skene	(1,127)	(30)	(44)	44	(1,157)
Lands of Torry	(1,358)	505	(128)	128	(853)
McBey Trust	(755)	0	(6)	263	(498)
Total - Charitable Trusts	(7,560)	385	(201)	640	(6,736)
Non Charity	Balance as at 31 March 2016 £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2017 £'000
Educational Trusts	(1,325)	485	(62)	61	(841)
Endowment Funds					
- Educational	(735)	(85)	(21)	0	(841)
- Social Work	(313)	(36)	(5)	0	(354)
Guildry	(1)	0	0	1	0
Arts & Heritage	(74)	0	0	0	(74)
Graveyards	(24)	0	0	2	(22)
Monuments	(7)	0	0	0	(7)
John Rickart	(55)	0	(1)	1	(55)
Lands of Elsick	(3)	0	0	3	0
McBey Trust	(71)	0	(1)	1	(71)
Glover House Ltd	(1)	0	(33)	33	(1)
Aberdeen Japan Trusts	(525)	0	0	8	(517)
Total - Non Charitable Trusts	(3,134)	364	(123)	110	(2,783)
Total	(10,694)	749	(324)	750	(9,519)

Investment of Funds

Charitable Trusts 2015/16 £'000	Non Charitable Trusts 2015/16 £'000	Total 2015/16 £'000		Charitable Trusts 2016/17 £'000	Non Charitable Trusts 2016/17 £'000	Total 2016/17 £'000
			Invested in:			
4,256	525	4,781	Land & Buildings	3,366	517	3,883
109	805	914	Equities – Listed	128	928	1,056
5	39	44	Gilt Edged Securities	8	36	44
0	1	1	Bank	0	233	233
2,783	1,831	4,614	Council Loans Fund	2,836	1,136	3,972
400	0	400	Other Investments	400	0	400
52	0	52	Debtors	50	0	50
(45)	(67)	(112)	Creditors	(52)	(67)	(119)
7,560	3,134	10,694		6,736	2,783	9,519
0	(1)	(1)	Share Capital	0	(1)	(1)
(4,961)	(2,585)	(7,546)	Unrestricted Funds	(4,590)	(2,104)	(6,694)
(114)	(545)	(659)	Endowment Funds	(135)	(675)	(810)
(2,485)	(1)	(2,486)	Designated Funds – Common Good Fund	(2,011)	(1)	(2,012)
0	(2)	(2)	Designated Funds – Grampian Health Board	0	(2)	(2)
(7,560)	(3,134)	(10,694)		(6,736)	(2,783)	(9,519)

Steven Whyte, CPFA
Head of Finance

26 September 2017

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Group Accounts

The Council has an interest in a number of companies and joint ventures and where material their financial results are consolidated into the Group Accounts.

Group Movement in Reserves Statement

	Total Usable Reserves (Page 53) £'000	Total Unusable Reserves (Note 12) £'000	Total Council Reserves £'000	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £'000	Total Reserves £'000
Balance at 31 March 2015	(128,026)	(1,063,100)	(1,191,127)	(101,093)	(1,292,220)
Movement in Reserves during 2015/16					0
(Surplus) or deficit on provision of services *	70,339	0	70,339	(201)	70,138
Other Comprehensive Income and Expenditure *	0	(403,961)	(403,961)	(10,037)	(413,998)
Total Comprehensive Income and Expenditure	70,339	(403,961)	(333,622)	(10,238)	(343,860)
Adjustments between accounting basis & funding basis under regulations	(39,252)	39,253	1	6	7
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	31,087	(364,708)	(333,621)	(10,232)	(343,853)
Transfers to/from Earmarked Reserves & Statutory Reserves	(2,924)	2,924	0	0	0
Increase/Decrease in Year	28,163	(361,784)	(333,621)	(10,232)	(343,853)
Balance at 31 March 2016 carried forward	(99,863)	(1,424,884)	(1,524,747)	(111,325)	(1,636,072)
Movement in Reserves during 2016/17					
(Surplus) or deficit on provision of services	54,784	0	54,784	(6,280)	48,504
Other Comprehensive Income and Expenditure	97	(23,110)	(23,013)	9,983	(13,030)
Total Comprehensive Income and Expenditure	54,881	(23,110)	31,771	3,703	35,474
Adjustments between accounting basis & funding basis under regulations	(46,075)	46,075	0	(6)	(6)
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	8,806	22,965	31,771	3,697	35,468
Transfers to/from Earmarked Reserves & Statutory Reserves	3,667	(3,667)	0	0	0
Increase/Decrease in Year	12,473	19,298	31,771	3,697	35,468

Group Comprehensive Income and Expenditure Statement

2015/16			2016/17			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Continued Operation			
233,625	(17,598)	216,027	Education and Childrens Services	244,961	(14,873)	230,088
171,954	(82,276)	89,679	Communities,Housing and Infrastructure	178,683	(75,913)	102,770
117,473	(34,862)	82,611	Integrated Joint Board/Social Work	218,366	(128,697)	89,669
56,671	(55,630)	1,041	Housing Benefits	58,044	(57,408)	636
39,901	(939)	38,962	Corporate and Miscellaneous	40,961	(4,447)	36,514
37,279	(9,034)	28,245	Corporate Governance	37,814	(11,396)	26,419
4,679	(1,843)	2,836	Office of the Chief Executive	6,059	(2,443)	3,616
171,738	(96,498)	75,240	HRA	120,813	(96,686)	24,127
833,321	(298,679)	534,641	Cost of Services	905,701	(391,862)	513,839
0	(4,731)	(4,731)	Other Operating Expenditure	0	(7,214)	(7,214)
66,103	(47,508)	18,595	Financing and Investment Income and Expenditure	76,082	(46,534)	29,548
7,383	(7,314)	69	Surplus or Deficit from Discontinued Operation	5,544	(4,324)	1,220
0	(478,633)	(478,633)	Taxation and Non Specific Grant Income	0	(480,392)	(480,392)
906,807	(836,865)	69,942	(Surplus) or Deficit on Provision of Services	987,327	(930,326)	57,001
		196	Share of (surplus) or deficit on the provision of services of Associates and JV			(4,683)
		70,138	Group (Surplus)/Deficit			52,318
		(357,134)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(8,123)
		41	(Surplus)/deficit on revaluation of available for sale financial assets			405
		(56,509)	Actuarial (gains)/losses on pension assets/liabilities			(9,616)
		(481)	Share of other Comprehensive Income and Expenditure of Associates and Joint Ventures			540
		86	Other (gains)/losses			(49)
		(413,997)	Other Comprehensive Income and Expenditure			(16,842)
		(343,859)	Comprehensive Income and Expenditure from Continued Operation			35,476

Group Balance Sheet

31 March 2016		31 March 2017
£'000		£'000
2,140,010	Property, Plant and Equipment (note xi)	2,239,668
183,894	Investment Property (note xii)	176,390
31	Intangible Assets	0
28,589	Long Term Investments and/or Investments in Associates and Joint Ventures	33,469
172,092	Heritage Assets	172,756
19,578	Long Term Debtors	7,311
2,544,194	Long Term Assets	2,629,594
31,119	Short Term Investments	141,227
2,025	Inventories	2,016
53,538	Short Term Debtors	74,093
31,903	Cash and Cash Equivalents	185,081
5,619	Assets held for sale	5,804
124,204	Current Assets	408,221
(95,101)	Short Term Borrowing	(61,697)
(88,570)	Short Term Creditors	(91,296)
(3,870)	Provisions	(4,234)
(2,478)	PPP Short Term Liabilities	(2,611)
(2,308)	Capital Grants Receipts in Advance	(597)
(521)	Revenue Grants Receipts in Advance	(473)
(5,618)	Other Short Term Liabilities	(5,515)
(198,466)	Current Liabilities	(166,423)

Group Balance Sheet

31 March 2016		31 March 2017
£'000		£'000
(223)	Long Term Creditors	(108)
(1,248)	Provisions	(679)
(464,892)	Long Term Borrowing	(900,872)
(1,196)	Liabilities in Associates and Joint Ventures	(2,262)
(103,584)	PPP Long Term Liabilities	(100,973)
	Other Long Term Liabilities	
(262,715)	Pension Liabilities	(265,893)
(833,858)	LT liabilities	(1,270,787)
1,636,073	Net Assets	1,600,606
(99,863)	Usable Reserves	(87,391)
(1,424,885)	Unusable Reserves	(1,405,585)
32,560	Group - Usable Reserves	33,361
(143,885)	Group - Unusable Reserves	(140,991)
(1,636,073)	Total Reserves	(1,600,606)

* From 1 April 2017, the operation of AECC transferred to SMG Europe Ltd. AECC Ltd will be wound up during 2017/18 and is therefore reflected in these accounts as a discontinued operation.

Steven Whyte, CPFA
Head of Finance

26 September 2017

Group Cash Flow

31 March 2016 £'000		31 March 2017 £'000
(70,138) *	Net surplus or (deficit) on the provision of services	(52,317)
178,933	Adjust net surplus or deficit on the provision of services for non cash movements	131,841
(40,717)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(54,546)
68,078	Net cash flows from Operating Activities (Note vii)	24,979
(95,684)	Net cash flows from Investing Activities (note viii)	(273,999)
14,160	Net Cash flows from Financing Activities (note ix)	401,475
(13,446)	Net increase or decrease in cash and cash equivalents	152,455
47,576	Cash and cash equivalents at the beginning of the reporting period	34,130
34,130	Cash and cash equivalents at the end of the reporting period (note x)	186,584

Notes to the Group Accounts

Note i Group Accounting Policies & Nature of Consolidation

The group accounting policies are those specified for the single entity annual accounts. Where materially different, accounting policies of group members have been aligned to those of the single entity. The accounting policies of all group members are materially the same as those of the single entity, except in the following cases:

- The difference in the recognition of land and buildings by Aberdeen Sports Village (ASV). Aberdeen City Council revalues its assets at the point they become operational, while the Sports Village continues to hold them at historic cost, net of depreciation, until they are revalued as part of a 5 year cycle of revaluations, following which the accounting policy will become aligned. As at 31 March 2016, and due to the nature and age of the buildings it is anticipated that there would be no material impact of undertaking a revaluation as at the point of the assets becoming operational.
- Aberdeen Exhibition and Conference Centre Ltd, and Aberdeen Sports Village Ltd are not required to prepare their annual accounts on an IFRS basis and on the grounds of materiality no consolidation adjustments have been made to the group accounts.

The Group Accounts have been prepared on the basis of a full consolidation of financial transactions and balances of the Council and its subsidiaries. This means the transactions and balances of the Council and the subsidiaries have been consolidated on a line by line basis. Associates have been incorporated using the equity method where the Council's investment in the associates is adjusted each year by the Council's share of the associate's results and other gains and losses. Joint Ventures have been incorporated using the gross equity method.

The accounting periods for all entities are from 1 April 2016 to 31 March 2017, with the exception of ASV Ltd, whose accounting year end is 31 July, in line with that of its other shareholder, The University of Aberdeen. ASV Ltd has been incorporated on the basis of amalgamating data from the annual accounts produced at 31 March 2016, 31 July 2016 and 31 March 2017. This means that a 12 month period of activity is incorporated into the Group Accounts.

The values stated in the Group Accounts have been adjusted for the elimination of intergroup transactions and balances including debtors and creditors.

Note ii Disclosure of Interest in Other Entities

The Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interests in all types of entity to incorporate into Group Accounts. A full set of group accounts, in addition to the Council's accounts, has been prepared which incorporates material balances from identified subsidiaries, associates and joint ventures.

Aberdeen City Council has an interest in a number of Subsidiaries, Associate companies and a Joint Venture. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

The business combination for the Group Accounts includes Subsidiaries – Aberdeen Exhibition and Conference Centre Limited (AECC) 100%, Common Good 100%, Trust Funds 100%, Sport Aberdeen 100%, Bon Accord Care and Bon Accord Support Services 100%. Included as an Associate is Grampian Valuation Joint Board 39%. The Joint Venture with the University of Aberdeen is in Aberdeen Sports Village Limited 50%.

Subsidiaries**Aberdeen Exhibition and Conference Centre Limited (AECC)**

AECC is wholly owned and controlled by Aberdeen City Council who are represented on the board of directors. The Council holds a 100% shareholding, comprising 28,065,000 £1 ordinary shares fully paid up, in Aberdeen Exhibition and Conference Centre Limited (AECC) to conduct of exhibitions, conferences and other events. From 1 April 2017, the operation of AECC transferred to SMG Europe Ltd. AECC Ltd will be wound up during 2017/18 and is therefore reflected in these accounts as a discontinued operation.

Common Good

The voting rights held by Aberdeen City Council are 100%.

The Common Good stands separate from other accounts and funds of the Council, and could be said to originate in the grant of freedom lands by King Robert the Bruce in 1319. The Common Good is corporate property and must be applied for the benefit of the community as the Council thinks fit. It is invested in land, buildings, industrial estates, and farms with any surplus being placed on cash deposit with other local authorities, building societies and the Council's Loans Fund.

Trust Funds

The Council is responsible for the administration of various trusts, the proportion of voting rights held by Aberdeen City Council being 100%. They have been created by bequest or evolved through history or by public subscription and are utilised for a variety of benefits such as education and social work, charitable purposes, religious instruction, medical institutions, the upkeep of public works and also the administration of the Guildry. The money earned from the investments of the Trusts is used to provide grants, prizes and dux medals for school children and requisites for clients in Social Work homes. As well as administering the trusts, the Council is also the appointed trustee for all the trusts.

In addition to these trusts there are a number of independent trusts which are separately supported and administered by the Council e.g. the Chris Anderson Trust and various Festival trusts.

Sport Aberdeen

Sport Aberdeen Limited is a charity and constitutes a limited company limited by guarantee. The principal activity of the company is the provision of recreation leisure facilities and services on behalf of Aberdeen City Council in accordance with key priorities. Although Aberdeen City Council does not own the entity, under chapter 9 of the Code the Council have determined that control representing power to govern exists through agreements in place and that Sport Aberdeen Limited appears to be operating as a structured entity of the Council as defined by IFRS 12.

In the event that Sport Aberdeen incurs any reasonable and properly incurred losses or liabilities, damage claims, demand, costs, expenses, penalties, legal and other professional fees, the council will indemnify Sport Aberdeen on demand for these losses.

Aberdeen City Council as the Scheme employer of the North East Scotland Pension Fund in which Sport Aberdeen is an Admission Body guarantees to discharge on demand the guaranteed obligations by making immediate payment to the fund.

Bon Accord Care and Bon Accord Support Services

Bon Accord Care Limited and Bon Accord Support Services Limited are private companies limited by shares which are 100% held by Aberdeen City Council. Bon Accord Care provides regulated (by the Care Inspectorate) care services to Bon Accord Support Services which in turn delivers both regulated and unregulated adult social care services to the Council.

Joint Ventures

Aberdeen City Council holds a 50% share in Aberdeen Sports Village Limited (ASV), a company limited by guarantee and registered as a charity. This is a joint venture company owned equally by the Council and The University of Aberdeen. The relationship is treated as a joint venture and accounted for using the gross equity method, such that 50% of the company's gross assets and liabilities are incorporated within the Group Balance Sheet of the Council and 50% of its net income is reported in the Council's Group Income and Expenditure Accounts. ASV currently has Net Assets of £37.3m in 2016/17 (£38.1m in 15/16).

ASV Ltd was incorporated on 17 July 2007 and its objectives are to provide sports and recreational facilities, including elite sports facilities for the use of both students and staff of the University of Aberdeen and the general public, and the advancement of public participation in sport.

The Aberdeen City Integration Joint Board (IJB) was established by order of Scottish Ministers on 6 February 2016, becoming fully operational from 1 April 2016. The IJB is responsible for the strategic planning, resourcing and operational delivery of all integrated health and social care within the Aberdeen City area. This has been delegated by the partners; Aberdeen City Council and NHS Grampian. During financial year 2016/17, the partners contributed £311 million in funding to the IJB (£26,809,000 in the period 6 February 2016 to 31 March 2016).

Associates

Aberdeen City Council incorporates the following Associate in its group annual accounts;

Grampian Valuation Joint Board	39%
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There is no share capital issued by the Joint Boards, and therefore the consolidation proportion was based on the level of contribution Aberdeen City Council provided to the Board.

The Grampian Valuation Joint Board was created following Local Government Re-organisation on 1 April 1996, under the Local Government (Scotland) Act 1994 and covers the local government areas of Aberdeenshire, Aberdeen City and Moray.

Distribution of Reserves

With the exception of Aberdeen Sports Village, there is no significant statutory, contractual or exchange control restrictions on the ability of an associate to distribute its reserves. Aberdeen Sports Village's reserves are mainly funded from SportsScotland and are restricted to the provision of sport in the area. As a charity unrestricted reserves may be transferred to some other charitable body or bodies whose objectives are similar to the objectives of Aberdeen Sports Village.

Note iii Financial Impact of Consolidation

The effect of inclusion of the subsidiary, associate and joint venture entities on the Group Balance Sheet is to increase both Reserves and Net Assets by £107.6 million (increase of £111.3 million in 2015/16).

Note iv Group Entities

The financial performance of each of the group entities included within the Group Accounts was as follows:

For the financial year 2015/16	ACC Control %	Commitment to meet accumulated deficits %	Net Assets / (liabilities) £'000	Surplus / (deficit) for the year £'000	The accounts can be acquired from
Subsidiaries					
Aberdeen Exhibition and Conference Centre	100	100	1,580	(69)	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	112,492	6,757	Head of Finance, Aberdeen City Council
Trust Funds	100	100	8,208	802	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(304)	1,075	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Bon Accord Care Limited	100	100	(8,965)	1,254	Archibald Simpson House, King Street, Aberdeen, AB24 5AA
Bon Accord Support Services Limited	100	100	(488)	134	Archibald Simpson House, King Street, Aberdeen, AB24 5AA
Joint Ventures					
Aberdeen Sports Village Limited	50	50	38,121	(83)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Associates					
Grampian Valuation Joint Board	39	39	(3,066)	732	The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin IV20 1BX
For the financial year 2016/17	ACC Control %	Commitment to meet accumulated deficits %	Net Assets / (liabilities) £'000	Surplus / (deficit) for the year £'000	The accounts can be acquired from
Subsidiaries					
Aberdeen Exhibition and Conference Centre	100	100	(1,639)	(1,220)	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	111,175	(1,317)	Head of Finance, Aberdeen City Council
Trust Funds	100	100	7,507	(701)	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(4,242)	(3,938)	Broadford House, Broadford Road, Bridge of Don, Aberdeen, AB23 8EE
Bon Accord Care Limited	100	100	(9,521)	(556)	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Bon Accord Support Services Limited	100	100	(597)	(116)	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Joint Ventures					
Aberdeen Sports Village Limited	50	50	37,312	(820)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Integrated Joint Board	50	50	10,418	10,418	50 Frederick Street, Aberdeen, AB24 5HY
Associates					
Grampian Valuation Joint Board	39	39	5,799	(2,733)	The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin IV20 1BX

Note v Non-Material Interest in Other Entities

On the grounds of materiality, Aberdeen Heat and Power Limited (AH&P Ltd), the North East Transport Partnership (NESTRANS), Grampian Venture Capital Fund Ltd, Strategic Development Planning Authority and Scotland Excel have been excluded from the foregoing Group Accounts.

AH&P Ltd is a company limited by guarantee and has no share capital. Aberdeen City Council is the sole guarantor. Control of the Company rests with the Board of Directors which is independent from Aberdeen City Council. The Council is entitled to appoint 2 out of 10 directors i.e. 20% of the Board. In the event that AH&P Ltd ceases to exist the ownership of the assets would transfer to the Council. For the year ended 31 March 2017, AH&P Ltd made a profit of £330,755 (a profit of £665,267 in 2015/16) and the net assets of the company were £2,369,344 (£2,026,355 in 2015/16). Turnover was £3,636,090 (£3,577,829 in 2015/16). The accounts for 2016/17 are subject to audit. Copies of AH&P Ltd.'s accounts may be obtained from Brodies Secretarial Services Limited, 15 Atholl Crescent, Edinburgh, EH3 8HA.

NESTRANS was created under the Transport (Scotland) Act 2005 by the Scottish Government. Its aim is to develop and deliver a long term regional transport strategy and take forward strategic transport improvements that support and improve the economy, environment and quality of life across Aberdeen City and Aberdeenshire. There are 12 members on the Board. Aberdeen City Council, Aberdeenshire Council and the Scottish Government have 4 members each. The Councils fund the Partnership on an equal basis. For 2016/17, Aberdeen City Council contributed £ 135,000 (£47,000 in 2015/16) towards the core costs of the organisation. The current legislative position of NESTRANS prevents it from retaining a surplus and reserves. The impact in consolidation using the equity method is therefore nil. The audited accounts for 2016/17 show a deficit of £38,400 (surplus of £3500 in 2015/16) for the year, before taking into account amounts required by statute and non statutory proper practices to be debited or credited to the general fund balance.

Grampian Venture Capital Fund Ltd is a private company limited by shares with a share capital of £455,000. Aberdeen City Council holds 29.9% of the voting rights. The two other main shareholders are Aberdeenshire Council with 35.4% and Moray Council with 20.4%. As at 31 March 2016 net assets amounted to £310,155 (£310,815 in 2014/15) with a loss for the year of £660 (loss of £5,580 in 2014/15). The accounts for 2016/17 are being prepared. It is anticipated that there will be no significant changes as at March 2017. Grampian Venture Capital Fund was established in 1988 as Moray Venture Capital Fund Limited to provide development and venture capital to promote industry in the Moray area and subsequently extended across Grampian Region in late 1994.

The Strategic Development Planning Authority is a partnership between Aberdeen City and Aberdeenshire Councils. The SDPA was designated by Scottish Ministers on 25 June 2008 and is one of 4 cities–region planning authorities. The current legislative position of SPDA prevents it from retaining a surplus and reserves. In 2016/17, Aberdeen City Council contributed £84,134.12 (£62,000 in 2015/16) towards the costs of the organisations.

Scotland Excel is the Centre of Procurement Expertise for the Local Government sector in Scotland. Established in 2008, their remit is to work collaboratively with members and suppliers to raise procurement standards, secure best value for customers and to improve the efficiency and effectiveness of public sector procurement in Scotland. Scotland Excel is funded by member requisitions. For 2016/17, Aberdeen City Council contributed £140,607 (£128,501 2015/16) towards the cost of these services. This represents Aberdeen City Council's share at 4%.

The Aberdeen City National Housing Trust LLP is a Joint Venture between the Scottish Futures(SFT), Aberdeen City Council(ACC) and The Developer(Stewart Milne Group). ACC owns 25% of the voting rights. The aim of the Partnership is to own and rent affordable housing to tenants in Aberdeen.The LLP is funded by Loans obtained by ACC from the Public Works Loan Board (PWLB) which is guaranteed by the SFT and Loans from the Developer not guaranteed by the SFT. The financial statements of the Aberdeen City NHT LLP for financial year ended 30/06/2016 shows Net Assets of £6,373,816 (Net Liability of £3,600 as at 30/06/2015).

Note vi Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2015/16 £'000		2016/17 £'000
26,095	Interest payable and similar charges	35,077
8,760	Pensions interest cost and expected return on pensions assets	8,224
(1,197)	Interest receivable and similar income	(974)
(6,064)	Income and expenditure in relation to investment properties and changes in their fair value	(8,883)
(8,995)	Other investment income	(3,897)
18,599	Total	29,547

Note vii Cash Flow Statement – Group Operating Activities

2015/16		2016/17
£'000		£'000
(70,138)	Net surplus or (deficit) on the provision of services	(52,317)
(70,138)		(52,317)
	Adjustment to surplus or deficit on the provision of services for non-cash movements:	
69,890	Depreciation	68,587
82,216	Impairment, downward revaluations & non sale derecognitions	57,429
227	(Increase)/Decrease in Stock	81
3,381	(Increase)/Decrease in Debtors	(4,924)
0	Increase/(Decrease) in impairment provision for bad debts	0
(1,737)	Increase/(Decrease) in Creditors	170
14,707	Payments to Pension fund	11,256
6,161	Carrying amount of non current assets sold	10,332
0	Carrying amount of written off assets	0
3,673	Contributions to Other Reserves / Provisions	(3,600)
(864)	Movement in value of investment properties	57
	Assets held for sale movement	0
49	Amortisation of intangible assets	31
1,229	Other non-cash movements, including reversal of surplus or deficit on provision of services by associates and joint ventures	(7,579)
178,933		131,841
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(31,307)	Receipt of Capital Grants and Contributions	(43,398)
(9,410)	Proceeds from the sale of PP&E, investment property and intangible assets	(11,148)
(40,717)		(54,546)
68,078	Net cash flows from operating activities	24,978

Note viii Cash Flow Statement – Group Investing Activities

2015/16 £'000		2016/17 £'000
(137,020)	Purchase of property, plant and equipment, investment property and intangible assets	(218,960)
621	Purchase of short term and long term investments	(110,108)
	Other payments for investing activities	
10,266	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,321
(858)	Contribution from the Capital Receipts Reserve towards the administrative costs on non current asset disposals	(650)
0	Proceeds from short term and long term investments	0
31,307	Capital grants and contributions received	43,398
0	Other receipts from investing activities	
(95,684)	Net cash flows from investing activities	(273,999)

Note ix Cash Flow Statement – Group Financing Activities

2015/16 £'000		2016/17 £'000
0	Cash receipts of short term and long term borrowing	0
(28)	Other receipts from financing activities	
15,962	Repayments of short term and long term borrowing	403,982
(1,773)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet	(2,478)
0	Other payments for financing activities	(29)
14,160	Net cash flows from investing activities	401,475

Note x Cash Flow Statement – Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2016 £'000		31 March 2017 £'000
35	Cash held by officers	38
34,095	Bank current accounts	186,546
34,130	Total cash and cash equivalents	186,584

Note xi Group Property, Plant and Equipment*Movements on Balances*

Comparative Movements in 2015/16:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment PP Assets Included in Property, Plant & Equipment	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2015	825,232	909,124	67,735	210,743	23,305	20,760	54,514	2,111,413	186,944
Additions	34,278	28,187	8,948	26,470	1,132	1	32,067	131,083	1
Revaluations	103,589	(3,221)	0	0	0	472	0	100,840	0
Derecognition / Disposals	(4,984)	0	(13,836)	0	0	0	0	(18,820)	(8,059)
Transfers	(637)	13,625	0	0	0	930	(15,325)	(1,407)	0
At 31 March 2016	957,478	947,715	62,847	237,213	24,437	22,163	71,256	2,323,109	178,886
Accumulated Depreciation and Impairment									
At 1 April 2015	(135,576)	(41,791)	(36,939)	(79,364)	0	(190)	0	(293,860)	(8,059)
Depreciation Charge	(32,299)	(24,822)	(5,620)	(7,107)	0	(42)	0	(69,890)	(3,081)
Depreciation & Impairment written out	167,239	394	0	0	0	233	0	167,866	0
Derecognition / Disposals	0	0	13,499	0	0	0	0	13,499	8,059
Transfers	0	0	0	0	0	0	0	0	0
At 31 March 2016	(636)	(66,219)	(29,060)	(86,471)	0	1	0	(182,385)	(3,081)
Net Book Value									
At 31 March 2016	956,842	881,496	33,787	150,742	24,437	22,164	71,256	2,140,724	175,805
At 31 March 2015	689,656	867,333	30,796	131,379	23,305	20,570	54,514	1,817,553	178,885

Movements in 2016/17

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Total Property, Plant & Equipment PP Assets Included in Property, Plant & Equipment	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2016	957,478	947,715	62,846	237,213	24,437	22,163	71,256	2,323,108	178,886
Additions	41,833	22,967	7,404	22,187	1,643	17	126,694	222,745	20
Revaluations	3,322	(10,933)	0	0	0	(3,715)	0	(11,326)	0
Derecognition / Disposals	(36,106)	(44,949)	(7,144)	0	0	(2,177)	0	(90,376)	0
Transfers	(1,789)	1,312	0	0	0	0	0	(477)	0
At 31 March 2017	964,738	916,112	63,106	259,400	26,080	16,288	197,950	2,443,674	178,906
Accumulated Depreciation and Impairment									
At 1 April 2016	(636)	(66,218)	(29,060)	(86,471)	0	1	0	(182,385)	(3,081)
Depreciation Charge	(27,922)	(26,229)	(6,468)	(7,969)	0	0	0	(68,588)	(3,081)
Depreciation & Impairment written out	432	39,961	0	0	0	0	0	40,393	0
Derecognition / Disposals	179	370	6,025	0	0	0	0	6,574	0
Transfers	0	0	0	0	0	0	0	0	0
At 31 March 2017	(27,947)	(52,116)	(29,503)	(94,440)	0	1	0	(204,006)	(6,162)
Net Book Value									
At 31 March 2017	936,791	863,996	33,603	164,960	26,080	16,289	197,950	2,239,668	172,744
At 31 March 2016	956,842	881,497	33,786	150,742	24,437	22,164	71,256	2,140,724	175,805

Note xii Investment Properties

The following items of income and expense have been accounted for in the Group Comprehensive Income and Expenditure Statement:

	2015/16	2016/17
	£'000	£'000
Rental and interest income from investment property	(10,345)	(10,908)
Expenses arising from investment property	3,366	1,823
Revaluation (gains)/losses	(503)	202
Net (gain)/loss	(7,482)	(8,883)

The following table summarises the movement in the fair value of investment properties over the year:

	2015/16	2016/17
	£'000	£'000
Balance at start of the year	178,233	183,896
Additions:		
• Purchases	203	
• Construction		
• Subsequent expenditure		
Disposals	1	(124)
Net gains/losses from fair value adjustments	5,459	(6,950)
Transfers:		
• to/from Inventories		(430)
• to/from Property, Plant and Equipment		
Other changes		
Balance at end of the year	183,896	176,390

Note xiii Loans and Trading Balances with subsidiaries as at 31 March 2016 and 2017 are as follows:

	Loans		Debtors		Creditors	
	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000
AECC	0	0	1	533	(250)	
Bon Accord Care Ltd	0	0	0	65	(12)	(11)
Bon Accord Support Services Ltd	0	0	4,664	2,846	(2,697)	(4,975)
Sport Aberdeen	(2,990)	(1,720)	55		(122)	
Common Good	(8,840)	(13,806)	0	0	0	0
Trust Funds	(4,355)	(4,075)	0	0	0	0
	(16,185)	(19,601)	4,720	3,444	(3,081)	(4,986)

Note xiv Operating Expenditure and Income of the Subsidiaries

The operating expenditure and income of the subsidiaries have been included within Education, Cultural and Related, Planning and Development, Housing and Social Work Services, and Corporate & Democratic Core.

Note xv Share of Operating (surplus)/deficit, Total assets and liabilities of Joint Ventures and Associates

Analysis of operating results and balance sheet of Joint Ventures and Associates

2015/16	Share of Operating (surplus)/deficit £'000	Share of Total Assets £'000	Share of Total Liabilities £'000	Share of Net Assets /Liabilities £'000
Associates				
Grampian Valuation Joint Board	154	524	(1,720)	(1,196)
Associates Total	154	524	(1,720)	(1,196)
Joint Venture				
Aberdeen Sports Village Limited	42	25,807	(6,747)	19,060
Joint Ventures Total	42	25,807	(6,747)	19,060
2016/17				
	Share of Operating (surplus)/deficit £'000	Total Assets £'000	Total Liabilities £'000	Net Assets /Liabilities £'000
Associates				
Grampian Valuation Joint Board	115	536	(2,798)	(2,262)
Associates Total	115	536	(2,798)	(2,262)
Joint Venture				
Aberdeen Sports Village Limited	410	24,430	(5,774)	18,656
Integrated Joint Board	(5,209)	(5,209)	0	(5,209)
Joint Ventures Total	(4,799)	19,221	(5,774)	13,447

Note xvi**Pension Costs**

Aberdeen City Council (ACC) participates in the Local Government Pension Scheme and Teachers' Scheme administered by the Scottish Government. Aberdeen City Council acts as an administering authority for the Local Government Pension Scheme. Both schemes are defined benefit schemes based on final pensionable salary.

Subsidiaries

Aberdeen Exhibition and Conference Centre Limited (AECC) operate a defined contribution pension scheme for employees where assets of the scheme are held separately from those of the Group. Contributions are charged to the Income and Expenditure Account as they become payable in accordance with the rules of the scheme. The pension costs for the year are £164,000 (£183,900 in 2015/16).

Sport Aberdeen Limited (SA) participates, as an admitted body, in the North East Scotland Pension Fund, a Local Government Pension Scheme which provides benefits based on final pensionable pay.

The difference between the actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in the CIES. The pension deficit for the year is £3,779,000 (£967,000 surplus in 2015/16).

Bon Accord Care (BAC) and Bon Accord Support Services (BASS) participate as admitted bodies, in the North East Scotland Pension Fund, a Local Government Pension Scheme which provides benefits based on final pensionable pay.

The difference between the actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in the CIES. In 2016/17 BAC made a pension loss of £144,000 while BASS realised a surplus of £932,000.

Joint Ventures

Aberdeen Sports Village Limited (ASV Ltd) participates, as an admitted body, in the Aberdeen City Council Pension Fund, which is part of the Local Government Pension Scheme. It is a defined benefit scheme however it is closed to new members, and therefore only covers individuals who transferred to the company when it became operational.

Assets and liabilities of the Fund are not separately identified between the various employers participating as part of the triennial actuarial valuations. As a result ASV Ltd is unable to identify its relevant share of the underlying assets and liabilities in the Fund. It is therefore accounted for as a defined contribution scheme and payments made to the Pension Fund in the year are included in the Income and Expenditure Account. The pension costs for the year are £78,136.5 (£75,927 in 2014/15).

Associates

Grampian Valuation Joint Board participates in the Local Government Pension Scheme administered by ACC.

Share of Associates Pension Interest Costs and Expected Return on Pension Assets

	2015/16 £'000	2016/17 £'000
Grampian Valuation Joint Board	57	50
Total	57	50

Note xvii Net Pension Liabilities

ACC share of pension liabilities of the Joint Boards are shown as below. These have been accounted for under IAS 19 'Post Employment Benefits'.

	2015/16 £'000	2016/17 £'000
ACC	(251,118)	(393,662)
<u>Share of Associates</u>		
Grampian Valuation Joint Board	(1,525)	(2,584)
Total	(252,643)	(396,246)

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Aberdeen City Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, the council-only Expenditure and Funding Analysis, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Head of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

- In our opinion, based on the work undertaken in the course of the audit the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Andy Shaw, for and on behalf of KPMG LLP

Saltire Court,
20 Castle Terrace
Edinburgh
EH1 2EG

Glossary of Terms

Revenue Expenditure: *This is expenditure incurred in providing services in the current year and which benefits that year only.*

Capital Expenditure: *This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing over a period of years, or utilising income from the sale of existing assets.*

CIPFA: *The Chartered Institute of Public Finance and Accountancy.*

COSLA: *Convention of Scottish Local Authorities*

LASAAC: *The Local Authority (Scotland) Accounts Advisory Committee.*

SeRCOP: *CIPFA's Service Reporting Code of Practice 2015/16.*

PWLB: *Public Works Loans Board, a Government agency that provides loans to the Council.*

IFRS: *International Financial Reporting Standards.*

IAS: *International Accounting Standard.*

OSCR: *Office of the Scottish Charity Regulator*



ABERDEEN CITY COUNCIL

Aberdeen City Council Charitable Trusts

Annual Report and Financial Statements

For the year ended
31 March 2017

Registered Numbers:

Guldry - SC011857
Bridge of Don Fund - SC018551
Alexander MacDonald's Bequest - SC018568
Bridge of Dee Fund - SC021297
Aberdeen Art Gallery Trusts - SC018575
Lands of Skene – SC018533
Lands of Torry – SC021299
Education Endowment Investment Funds (EEIF) – SC025063

Aberdeen City Council Charitable Trusts Trustees Annual Report 2016/17

Aberdeen City Council acts as the sole trustee for the charities in this report.

Aberdeen City Council administers the Charitable Trusts and separately accounts for them. They do not form part of the Council's single entity balance sheet, however they are included in the Annual Accounts of the Council and its group.

Reference and administration details

At the end of the year the Council acts as the sole trustee for 8 trusts which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR). The charity names, charity numbers, purposes of the charities, and where available details of governing document for the charities covered by this report are given in Appendix 1 of this document.

Principal Address

Aberdeen City Council,
Marischal College,
Broad Street,
Aberdeen
AB10 1AB

External Auditor

KPMG LLP,
Saltire Court,
20 Castle Terrace,
Edinburgh
EH1 2EG

Secretary

Fraser Bell
Head of Legal & Democratic Services,
Aberdeen City Council

Treasurer

Steven Whyte, CPFA
Head of Finance,
Aberdeen City Council

Trustees

As per guidance provided by OSCR, “Trustees” of the Charitable Trusts are those who have “general control and management” of the charity. Decisions regarding the general control and management of the Charitable Trusts are made by the full Council. For the purposes of this report it is our interpretation of the aforementioned that all elected members are Charity Trustees.

The Trustees are the Councillors of Aberdeen City Council, and are as follows:-

Lord Provost Barney Crockett (Chairperson)	Councillor Claire Imrie - appointed 4th May 2017
Councillor Yvonne Allan	Councillor Freddie John - appointed 4th May 2017
Councillor Christian Allard - appointed 4th May 2017	Councillor Jenny Laing
Councillor Alison Alphonse - appointed 4th May 2017	Councillor Douglas Lumsden - appointed 4th May 2017
Councillor Philip Bell - appointed 4th May 2017	Councillor Tom Mason - appointed 4th May 2017
Councillor Marie Boulton	Councillor M Taqeer Malik
Councillor David Cameron	Councillor Sandra MacDonald - appointed 4th May 2017
Councillor John Cook - appointed 4th May 2017	Councillor Neil MacGregor
Councillor Neil Copland	Councillor Avril MacKenzie - appointed 4th May 2017
Councillor Bill Cormie	Councillor Catriona MacKenzie - appointed 4th May 2017
Councillor Steve Delaney	Councillor Alexander McLellan - appointed 4th May 2017
Councillor Alan Donnelly	Councillor Ciaran McRae - appointed 4th May 2017
Councillor Jackie Dunbar	Councillor Alex Nicoll
Councillor Lesley Dunbar	Councillor Jim Noble
Councillor Sarah Duncan - appointed 4th May 2017	Councillor John Reynolds
Councillor Stephen Flynn	Councillor Gill Samarai
Councillor Gordon Graham	Councillor Philip Sellar - appointed 4th May 2017
Councillor Ross Grant	Councillor Jennifer Stewart
Councillor Martin Greig	Councillor Sandy Stuart
Councillor Dell Henrickson - appointed 4th May 2017	Councillor Gordon Townson
Councillor Ryan Houghton - appointed 4th May 2017	Councillor John Wheeler - appointed 4th May 2017
Councillor Brett Hunt - appointed 4th May 2017	Councillor Ian Yuill
Councillor Michael Hutchison	

All Trustees have served for the whole of the financial year to 31 March 2017 unless otherwise stated.

All of the Trustees are normally elected or re-elected at local government elections. By-elections are held on the occasion of elected members vacating their positions to elect new members, who automatically become Trustees. New members are supplied with training as part of their induction process.

Following the local government elections on 4th May 2017 the following councillors resigned as trustees:

Lord Provost George Adam (Chairperson)	Councillor Graeme Lawrence
Councillor Scott Carle	Councillor Aileen Malone
Councillor Neil Cooney	Councillor Ramsay Milne
Councillor John Corall	Councillor Jean Morrison MBE
Councillor Graham Dickson	Councillor Nathan Morrison
Councillor Andrew Finlayson	Councillor Angela Taylor
Councillor Len Ironside CBE	Councillor Ross Thomson
Councillor Muriel Jaffrey	Councillor Willie Young
Councillor Jim Kiddie	

Structure, governance and management

The Charitable Trusts are constituted in a variety of ways. The type of governing document is shown at Appendix 1 where they are available. Information regarding some of the trusts is not available owing to their antiquity and the fact that they have been administered by a number of government bodies since coming into public control.

The positions of Secretary and Treasurer are filled by professionally qualified officers of Aberdeen City Council.

Risk

The trustees have overall responsibility for the Charitable Trusts system of internal control, including financial reporting and compliance with laws and regulations. The trustees acknowledge that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Objectives and activities

Information on the purpose and nature of the trusts is given below.

Bridge of Don Fund

The fund, more properly known as the Brig O' Balgownie Trust Fund, was set up in 1605 and its original purpose was for the "repair and upholding of the Brig O' Balgownie". Modern charity legislation does not include bridge maintenance as a charitable purpose and OSCR have recently deemed that the purpose of this trust is the advancement of heritage.

In August 2016 the trust adopted a new constitution. The trust also agreed to provide a grant of £150,000 towards the renovation and redevelopment of Thomas Glover House.

The Bridge of Don Fund has a 30% interest in the Lands of Skene with the remainder of its funds being invested in the Aberdeen City Council Loans Fund.

Bridge of Dee Fund

This fund was established in the 16th Century for the support, maintenance, reparation and when it is necessary the re-building of the new stone bridge over the River Dee. As with the Bridge of Don Fund, above, OSCR have recently deemed that the charitable purpose of this trust should be the advancement of heritage.

An application to reorganise the Bridge of Dee Trust has been approved by OSCR in May 2017 and it is anticipated that the assets of this trust will be transferred to the Bridge of Don Trust during 2017/18 to be used for the advancement of heritage.

Trust funds are invested in the Aberdeen City Council Loans Fund.

Alexander MacDonald's Bequest

This fund was established in 1882 for the purchase of works of art for the Aberdeen Art Gallery and Museum collection following the death of Mr. MacDonald.

Trust funds are invested in the Aberdeen City Council Loans Fund.

Aberdeen Art Gallery Trusts

This trust was reorganised in March 2014 by the adoption of a new trust deed and funds are used for the advancement of the arts by providing for the purchase of works of art for the collection of Aberdeen Art Gallery & Museum. During 2016/17 the trust purchased a sculpture "Film of Dust on Ruins 2016" by Sara Barker.

Trust funds are invested in the Aberdeen City Council Loans Fund.

Guildry

The Guildry was formed 800 years ago, giving merchants of Aberdeen considerable powers within the town of Aberdeen. Over time that power has diminished and the membership is no longer restricted to merchants. Today the Guildry exists for the promotion of the City of Aberdeen. The governance of the Guildry was last updated by a Court of Session decision in 1996 which recognised the financial assistance scheme to Burgesses and their family members and a new scheme of educational bursaries. Educational bursaries have not been awarded for a number of years and the Dean of the Guild has been working with Aberdeen University, Robert Gordon University and the North East Scotland College to identify potential candidates for bursaries.

The Guildry is currently working on drafting a revised constitution to enable participation in a wider range of charitable activities.

Trust assets are a 40% share in the Lands of Skene and investments in the Aberdeen City Council Loans Fund.

Lands of Skene

The Lands of Skene goes back to 1710 when the east half of the Lands of Skene was purchased on behalf of certain accounts. This was followed in 1712 by the purchase of the west half. Two feuing schemes were carried out in 1789 and 1816 and the land now remaining is known as the Lands of Easter Carnie.

In recent years, a number of properties have been sold off and funds have been invested in the Aberdeen City Loans Fund.

The free revenue from the Lands of Skene is split between the following:

Guildry Funds – 40%
Bridge of Don Trust – 30%
Common Good Fund – 30%

This is believed to represent the share of investment in the original purchase of the lands.

Lands of Torry

The Lands of Torry goes back to at least 1704 when they were purchased on behalf of certain accounts:

Duncan Liddel's Mortification – Professor of Mathematics – 25%
Duncan Liddel's Mortification – Library of College – 2%
James Cargill's Mortification – Bursary Fund – 10%
Patrick Copland's Mortification – Professor of Divinity – 12%
Common Good Fund – 51%.

The annual surplus from this fund is now split between the following:

Common Good Fund – 51%
University of Aberdeen Bursary Fund – 49%.

Education Endowment Investment Funds (EEIF)

The EEIF comprises of over 60 smaller trusts, bequests and legacies split over 3 general areas.

- Education – primarily concerned with prizes or awards at schools
- Social Work – largely to provide comforts at residential homes
- John Murdoch Henderson Bequest – to be used for the purchase of music of intrinsically Scottish interest for the Central Library, Aberdeen.

In general the charities activities are limited to the accrual of income from investments for use as appropriate given the purposes of the charity.

While reviewing records as part of the Council's reorganisation of charitable trusts, OSCR advised that only a small number of trusts previously reported as part of the EEIF were actually registered as charities. Only accounts in relation to these registered charities are contained in this document. A review will take place of all trusts that were previously reported as part of the EEIF to consider a reorganisation in consultation with OSCR.

The charitable trust now comprises of the trusts listed in appendix 2, sixteen of these trusts relate to prizes or awards at school while the other trust is for the purchase of music.

The John Murdoch Henderson Trust adopted a new constitution in 2015 which allows for the purchase of a wider range of music. This trust has funded the subscription to on-line music services for Aberdeen City Library Service users. This trust will be wound up once its funds have been expended.

Financial Review

The Trusts' total income reduced from £197k in 2015/16 to £188k in 2016/17. The main change relates to investment returns.

Total Expenditure increased from £299k in 2015/16 to £370k in 2016/17. The main change in expenditure on charitable activities has been the agreement to pay a grant from Bridge of Don Trust towards the renovation of the Thomas Glover House of £150k.

The value of Investments reduced from £4,370k in 2015/16 to £3,502k in 2016/17 as a result of a large decrease in the value of investment properties held by Lands of Torry of £990k, offset by an increase in value of investment properties in Lands of Skene of £100k and increase of £20k in the investments held by EEIF.

Investments in the City of Aberdeen Loans Fund decreased from £3,337k in 2015/16 to £3,312k.

This resulted in a decrease in Net Assets from £8,110k in 2015/16 to £7,058k in 2016/17.

The following financial statements for all of the Charitable Trusts have been prepared using the connected charities provision. They show the income and expenditure for the individual charities along with the surplus or deficit for the year. None of the individual charities are carrying forward a deficit on their reserves.

Where Governance Costs are allocated to charities these are in proportion to the value of the sums invested with the Council and are based on time spent by officers of Aberdeen City Council providing financial and other support to the organisations.

The investment policy of the Trust is to invest any surplus monies in the Aberdeen City Council Loans Fund.

The charities have no fundraising activities, as such, their annual income is earned through rentals on land and buildings, interest on cash balances, or through investment income by holding assets from securities to holdings in investment trusts. Consequently the trusts' annual income will reflect the current record low interest rates and the limitations on increasing rents on farm properties governed by agricultural tenancies.

The fall in the value of land reflects the downturn in the Aberdeen economy due to the fall in oil prices. It may also affect future income of the trusts if there is a fall in the income from commercial properties or a reduction in demand for these properties.

Reserves Policy

The Charitable Trusts have no explicit reserves policy, but as a general principle the "capital" of the funds is held effectively as a permanent endowment with only the annual income available for disbursement in the year.

The exceptions to this rule are for charities with little funds and a governing document that specifically states that the capital can be expended. An example of this would be the John Murdoch Henderson Bequest, which as noted above adopted a new constitution to enable the expenditure of the entire capital.

Aberdeen City Council Charitable Trusts hold unrestricted reserves totalling £6.923M which are made up of unrestricted funds of £4.091M and designated funds of £2.832M. There are no restricted funds. Designated funds are those funds which relate to Aberdeen City Council non-charitable trusts which have invested in the Lands of Skene and Torry and at present no plans exist to spend this money.

Achievements and performance

A number of trusts have limited activity pending re-organisation, namely the Bridge of Dee Trust, EEIF and Guildry. The main charitable expenditures is the transfer of funds to the Aberdeen City Common Good Fund which finances a variety of activities for the benefit of the population of Aberdeen and funding for the Aberdeen University Bursary Fund. Further details are shown in the accounts within note 3.

The Bridge of Don Trust has been reorganised during the year and as a result of its new purpose of the advancement of heritage it has agreed a grant of £150k for the renovation and redevelopment of Thomas Glover House.

Future plans

The Guildry has been working with the University of Aberdeen, Robert Gordon University and North East Scotland College to find candidates for its bursary scheme. A new constitution for the Guildry is being drafted and it is hoped to have this ready for trustee approval in the Autumn.

The EEIF is currently being reviewed as a number of school prizes relate to schools that no longer exist.

Approval has been given by OSCR to reorganise the Bridge of Dee Trust and a report will be going to the August 2017 Council meeting to get trustee approval for this.

The limited funds held by the Alexander MacDonald Bequest will be used to fund the purchase of a work of art which will be unveiled at the re-opening of the Aberdeen Art Gallery and Museum following its refurbishment. The future of this trust and the Aberdeen Art Gallery Trusts will be reviewed at that time as both trusts have minimal funds.

Aberdeen City Council is currently drafting an investment strategy which will cover trusts under their management.

STATEMENT OF THE TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE Financial statements

The Trustees are responsible for preparing the Trustees' Annual report and financial statements in accordance with applicable law and regulations.

Charity law requires the trustees to prepare financial statements for each financial year. Under the law they are required to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Law applicable to charities in Scotland requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the Trust's financial activities during the year and of its financial position at the end of the year. In preparing financial statements, giving a true and fair view, the Trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in operation.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and which enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charity Accounts (Scotland) Regulations 2006 and the provisions of the Trust Deed. The Trustees are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention or detection of fraud and other irregularities.

Signed on behalf of the trustees on 26 September 2017

.....
Douglas Lumsden

Appendix 1

Charity Name, Number and Purpose

Charity Name	Charity Number	Purpose	Governing Document
Guildry	SC011857	Support the Guildry activities including financial assistance scheme and educational bursaries	Court of Session Decision 1996
Bridge of Don Fund	SC018551	The advancement of Heritage	Constitution dated August 2016
Alexander MacDonald's Bequest	SC018568	Purchase of Works of Art for Aberdeen Art Gallery	Trust Deed 11 December 1882
Aberdeen Art Gallery Trusts	SC018575	Purchase of Works of Art for Aberdeen Art Gallery	Trust Deed March 2014
Bridge of Dee Fund	SC021297	The advancement of Heritage	Unavailable
Lands of Skene	SC018533		Unavailable
Lands of Torry	SC021299	The advancement of Education	Unavailable
Education Endowment Investment Funds	SC025063	The advancement of Education and the advancement of the Arts, Heritage, Culture and Science	Unavailable except for John Murdoch Henderson Trust Deed of May 2015.

APPENDIX 2

EEIF Charitable Trusts

D M Andrew Bequest	For prizes in Classics at Aberdeen Grammar School
Miss Elizabeth H Bain Bequest	For music tuition and for instruments to pupils in city schools
Mrs Athol Benzie Prize Fund	For best all round pupil in fifth year at Aberdeen Academy
Edith and David R Bishop Prize Fund	For prizes to pupils at Aberdeen Grammar School selected by the rector
Mrs Mina Brooks Memorial Prize	For prizes for children's theatre
Miss Lucy Cruickshank Prize Fund	For prize to best pupil or pupils in French or German at High School for Girls
Jessie Durno Prize Fund	For prize in Mathematics at Aberdeen Academy
Mary Durno Prize Fund	For prize in English at Aberdeen Academy
Margaret Duthie Memorial Prize Fund	For pupil showing the greatest endeavour at Dyce School
Miss Margaret C Harper Prize Fund	For best pupil in German at Aberdeen Academy
Miss Bessie Heriot Prize Fund	For prize to best girl at Kaimhill Secondary School
John M Robertson Memorial Prize Fund	For prize to best pupil in commercial subjects at Aberdeen Grammar School
Kenneth MacIntosh Bequest	For paying or supplementing the expenses of pupils at Aberdeen Grammar School who might otherwise not be able to afford the cost of school trips
Dr Charles McLeod Trust	For purchase of books on Physical Science or Astronomy at Aberdeen Grammar School
William Meston Bursary Fund	For bursary to pupil of merit at Culter School taking a secondary course
Dr George MacKenzie Prize Fund	For prize to best pupil in German in Aberdeen Academy
John M Henderson Bequest	To purchase music of intrinsically Scottish interest for the Central Library, Aberdeen

Aberdeen City Council Charitable Trusts
Statement of Financial Activities
For the year ended 31 March 2017

		Unrestricted Funds 2016/17 £'000s	Restricted Funds 2016/17 £'000s	Endowment Funds 2016/17 £'000s	Total Funds 2016/17 £'000s	Total Funds 2015/16 £'000s
	<u>Note</u>					
Income and endowments from:						
Incoming resources from generated funds						
Donations & Legacies		1	-	-	1	1
Investments	2	187	-	-	187	196
Total		<u>188</u>	<u>-</u>	<u>-</u>	<u>188</u>	<u>197</u>
Expenditure on:						
Charitable Activities	3,4	370	-	-	370	299
Total		<u>370</u>	<u>-</u>	<u>-</u>	<u>370</u>	<u>299</u>
Net income/expenditure		(182)	-	-	(182)	(102)
Other recognised gains/(losses):						
Gains/(losses) on investment assets		(890)	-	20	(870)	631
Net movement in funds		<u>(1,072)</u>	<u>-</u>	<u>20</u>	<u>(1,052)</u>	<u>529</u>
Reconciliation of funds						
Total funds brought forward		7,998	-	112	8,110	7,581
Total funds carried forward		<u>6,926</u>	<u>-</u>	<u>132</u>	<u>7,058</u>	<u>8,110</u>

**Aberdeen City Council Charitable Trusts
Balance Sheet as at 31 March 2017**

	<u>Note</u>	2017 £'000s	2016 £'000s
Fixed assets			
Investments	5	3,502	4,370
Total fixed assets		3,502	4,370
Current assets			
Stocks and work-in-progress		-	1
Debtors	6	50	51
Investments - City of Aberdeen Loans Fund	7	3,312	3,337
Short Term Investment		400	400
Total current assets		3,762	3,789
Liabilities			
Creditors: Amounts falling due within one year	8	(206)	(49)
		(206)	(49)
Net current assets		3,556	3,740
Net assets		7,058	8,110
The funds of the charity			
Endowment funds		135	112
Restricted income funds		-	-
		135	112
Unrestricted income funds:			
Designated Funds:			
Common Good Fund		2,011	2,486
Dr Duncan Liddel's Mortification - Professor of Mathematics		422	671
Dr Duncan Liddel's Mortification - Library of College		21	33
James Cargill Mortification - Bursary Fund		172	273
Patrick Copland's Mortification - Professor of Divinity		206	328
Unrestricted funds		4,091	4,207
Total unrestricted funds		6,923	7,998
Total charity funds	9	7,058	8,110

These accounts have been prepared in accordance with the Financial Reporting Standard 102.

The financial statements were approved and authorised for issue by the trustees on 26th September 2017:

.....
Douglas Lumsden

Aberdeen City Council Charitable Trusts
Statement of Cash Flows
For the year ended 31 March 2017

	<u>Note</u>	Total Funds £'000	Prior Year Funds £'000
Net cash used in operating activities	12	(370)	(299)
Cash Flows from investing activities			
Dividends, interest and rents from investments		188	197
Proceeds from sale of property, plant and equipment		-	1,000
Net cash provided by investing activities		188	1,197
Change in cash and cash equivalents in the year		(182)	898
Cash and cash equivalents brought forward		3,737	2,839
Cash and cash equivalents carried forward	13	3,555	3,737

Aberdeen City Council Charitable Trusts

Notes to the Accounts

For the year ended 31 March 2017

1 - Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention as modified by the inclusion of investments at market value and in accordance, and include the results of the Trusts' operations, all of which are continuing.

The accounts have been prepared in accordance with applicable accounting standards, and comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006(as amended) and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), commonly referred to as the Charities SORP, and the Companies Act 2006. 102 published September 2016.

The Charities SORP (FRS 102) applies to reporting periods commencing on or after 1 January 2016 and the use of the Financial Reporting Standard for Smaller Entities (FRSSE) is no longer permitted. In preparing the 2016/17 financial statements there was no re-statement of comparative items following the adoption of the Charities SORP (FRS 102).

In line with Regulation 7 of the 2006 Regulations, these financial statements have been prepared on the basis that the Trust funds for which Aberdeen City Council acts as sole Trustee are connected charities. As such, the accounts for the statements contain all relevant information that the individual accounts would have contained if they had been prepared on an individual basis.

Going concern

The accounts have been prepared under the going concern concept on the basis that Trustees have considered it and are satisfied that the going concern concept is appropriate.

The John Murdoch Henderson Trust, part of the EEIF, had funds of £26k at 31 March 2016 and plans to expend remaining trust funds on subscriptions to online music services. When funds have been expended the trust will be wound up.

An application to reorganise the Bridge of Dee Trust by the transfer of all trust funds to the Bridge of Don Trust was agreed by OSCR in May 2017. It is anticipated that the Bridge of Dee Trust will be wound up during 2017/18.

Recognition of revenue and expenditure

All income and expenditure due to be paid or received in respect of the year ended 31 March 2017 has been provided for within these accounts. Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

Incoming resources

Incoming resources are included in the Statement of Financial Activities when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy. All incoming resources are in relation to unrestricted funds.

Income from investments is included in the Statement of Financial Activities in the year in which it relates. Interest on invested funds is included when it is paid or when it is notified as being due.

Rent from properties is recognised as it is due.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2017

1 - Accounting policies (continued)

Resources expended

Expenditure and liabilities are recognised as soon as there is a legal or constructive obligation committing the charitable trust to pay out resources. Liabilities are recognised when the charity has an obligation to make payment to a third party.

Resources expended are included in the Statement of Financial Activities on an accruals basis inclusive of any irrecoverable VAT.

Expenditure is directly attributed to the relevant category in the Statement of Financial Activities where practical. Other expenditure is allocated on a pro-rata basis on the basis of the size of the fund.

Governance costs include those costs incurred in the governance of the charity and its assets, and are primarily associated with constitutional and statutory requirements.

Funds (continued)

Endowment funds represent those Assets which must be held permanently by the charity. Income arising on the endowment funds can be used in accordance with the objectives of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. These funds are to be used in accordance with the specific restrictions imposed by donors.

Taxation

The Trusts are recognised by HM Revenue and Customs as charities and as a consequence of the tax reliefs available, income is not liable to taxation.

Investments

Investments are stated at market value at the balance sheet date. The Statement of Financial Activities includes the net gains and losses arising on revaluation and disposals throughout the year.

Trustee Remuneration and Staff Costs

The Trusts have no employees. None of the Trustees received any remuneration for their services, nor were they reimbursed for any expenses during the year.

Interest & Management Charges

Interest & Management Charges are not treated as Debtors/Creditors but are treated as adjustments within the balances held by the Aberdeen City Council Loans Fund.

Interest is applied to the charity accounts gross of income tax based on an annual interest rate received from banks on funds invested by Aberdeen City Council on behalf of the charities during the year.

Management charges are 1% of the loans fund held at the start of the year where the balance is over £500.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2017

1 - Accounting policies (continued)

Funds

Unrestricted funds include incoming resources receivable or generated for the objectives of the charity without specified purpose and are available as general funds. These funds can be used in accordance with the charitable objects at the discretion of the trustees.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the Trustees Annual Report.

Stock Policy

Stock consists of goods purchased for distribution to new members on their entry to the Guildry. Stocks are valued at the lower of cost or net realisable value.

	2017	2016
	£'000s	£'000s
2 INVESTMENT INCOME		
Interest receivable	31	28
Rent from Investment Properties	156	166
Share of lands free revenue	-	3
	<u>187</u>	<u>196</u>
3 CHARITABLE ACTIVITIES		
Donations and expenditures	179	7
Payments to Beneficiaries:		
Common Good Fund	67	150
Dr Duncan Liddel's Mortification - Professor of Mathematics	32	32
Dr Duncan Liddel's Mortification - Library of College	2	2
James Cargill Mortification - Bursary Fund	13	13
Patrick Copland's Mortification - Professor of Divinity	15	16
Property costs	8	33
	<u>316</u>	<u>253</u>
4 GOVERNANCE COSTS		
Accounting and administration	44	37
Audit Fee	10	9
	<u>54</u>	<u>46</u>

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2017

	2017 £'000s	2016 £'000s
5 TANGIBLE FIXED ASSETS		
Market Value at 1 April	4,370	4,738
Net investment gains	(868)	347
Disposals	-	(715)
Market Value at 31 March	<u>3,502</u>	<u>4,370</u>
Investments at market value Comprised:		
Investment Properties	3,366	4,256
Gilts	8	5
Equities	<u>128</u>	<u>109</u>
	<u>3,502</u>	<u>4,370</u>

The property portfolio was valued internally by Deborah Wylie, Bsc MRICS and Neil Strachan, BLE MRICS who are Registered Valuers in accordance with the Statement of Assets Valuation Practice and guidance notes of the Royal Institute of Chartered Surveyors (RICS)

Lands of Skene is a charity which owns an area of land known as the Lands of Skene. The Guildry Fund, Common Good Fund and Bridge of Don Fund each invested financially in the Lands of Skene and as a result are entitled to recognise a share of the total assets less current liabilities of this charity, being calculated in proportion to the initial amount invested by each, as an investment on their respective Balance Sheets

6 DEBTORS		
Prepayments & accrued income	<u>50</u>	<u>51</u>
7 INVESTMENTS HELD AS CURRENT ASSETS		
City of Aberdeen Loan Funds	<u>3,312</u>	<u>3,337</u>

The trustees have invested the free reserves of each of the charities in the City of Aberdeen loan funds in order to earn interest for the benefit of each charity. The loan funds is a cash investment and is stated at market value at the Balance Sheet date.

8 CREDITORS: Amounts falling due within one year		
Accruals and deferred income	194	37
Short Term Loan - Aberdeen City Council	<u>12</u>	<u>12</u>
	<u>206</u>	<u>49</u>

9 ANALYSIS OF NET ASSETS IN FUNDS	Tangible fixed assets	Current assets, (liabilities)	Total	Total
	£	£	£	£
Unrestricted funds	<u>3,502</u>	<u>3,556</u>	<u>7,058</u>	<u>8,110</u>

10 CONTROLLING INTEREST

Each charity is under the control of its trustees.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2017

	2017 £'000s	2016 £'000s
11 RELATED PARTY TRANSACTIONS		
Aberdeen City Council provides the accounting services for the trust for which a management fee is charged.	<u>37</u>	<u>29</u>
The trust also has funds deposited with Aberdeen City Loans Fund as detailed in note 7.		
12 RECONCILIATION OF NET MOVEMENT IN FUNDS TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Net income/(expenditure) for the reporting period (as per the statement of financial activities)	(1,052)	529
Adjustments for:		
(Gains)/losses on investments	870	(631)
Dividends, interest and rents from investments	<u>(188)</u>	<u>(197)</u>
Net cash provided by (used in) operating activities	<u>(370)</u>	<u>(299)</u>
13 ANALYSIS OF CASH AND CASH EQUIVALENTS		
Investments - City of Aberdeen Loans Fund	3,312	3,337
Short Term Investment	<u>400</u>	<u>400</u>
	<u>3,712</u>	<u>3,737</u>

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2017

14 ANALYSIS OF CHARITABLE TRUSTS

		Individual Trust Balances					Balance
		Balance	Transfer	Revaluation of	Income	Expenditure	as at 31
Charity	Number	as at 1	between	Investments	£'000	£'000	March
		April 2016	Funds	£'000	£'000	£'000	2017
		£'000	£'000				£'000
EEIF	SC025063	(169)	-	(20)	(3)	9	(183)
Guildry	SC011857	(2,669)	-	(40)	(15)	24	(2,700)
Bridge of Don	SC018551	(1,370)	-	(30)	(5)	154	(1,251)
Bridge of Dee	SC021297	(34)	-	-	-	-	(34)
Alexander MacDonald Bequest	SC018568	(32)	-	-	-	-	(32)
Aberdeen Art Gallery Trust	SC018575	(45)	-	-	(1)	19	(27)
Lands of Skene	SC018533	(3,759)	-	(100)	(44)	44	(3,859)
Lands of Torry	SC021299	(2,664)	-	990	(128)	128	(1,674)
Total		(10,742)	-	800	(196)	378	(9,760)

The above table shows the balances of the individual trust fund before the removal of intra trust transactions as both the Guildry (40%) and the Bridge of Don Trust (30%) are invested in Lands of Skene. The table below shows the individual balances after the removal of these transactions.

		Individual Trust Balances after adjusting for intra trust transactions					Balance
		Balance	Transfer	Revaluation of	Income	Expenditure	as at 31
Charity	Number	as at 1	between	Investments	£'000	£'000	March
		April 2016	Funds	£'000	£'000	£'000	2017
		£'000	£'000				£'000
EEIF	SC025063	(169)	-	(20)	(3)	9	(183)
Guildry	SC011857	(1,051)	-		(10)	24	(1,037)
Bridge of Don	SC018551	(156)	-		(1)	154	(3)
Bridge of Dee	SC021297	(34)	-	-	-	0	(34)
Alexander MacDonald Bequest	SC018568	(32)	-	-	-	-	(32)
Aberdeen Art Gallery Trust	SC018575	(45)	-	-	(1)	19	(27)
Lands of Skene	SC018533	(3,959)	-	(100)	(44)	36	(4,067)
Lands of Torry	SC021299	(2,664)	-	990	(128)	128	(1,674)
Total		(8,110)	-	870	(188)	370	(7,058)

Aberdeen City Council Charitable Trusts

Notes to the Accounts

For the year ended 31 March 2017

15 ANALYSIS OF CHARITABLE TRUSTS BALANCE SHEETS

Charity Name	Charity Number	Individual Trust Balances											Total £'000s
		Gilts £'000s	Equities £'000s	Investments £'000s	Heritable Property £'000s	Stock £'000s	City Council Loans Fund £'000s	Cash at		Creditors £'000s	Provision £'000s		
								Bank £'000s	Debtors £'000s				
EEIF	SC025063	8	128	-	-	-	47	-	-	-	-	-	183
Guildry	SC011857	-	-	1,543	-	-	768	400	3	(14)	-	-	2,700
Bridge of Don	SC018551	-	-	1,158	-	-	245	-	-	(3)	(150)	-	1,250
Bridge of Dee	SC021297	-	-	-	-	-	34	-	-	-	-	-	34
Alexander McDonald Bequest	SC018568	-	-	-	-	-	32	-	-	-	-	-	32
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	27	-	-	-	-	-	27
Lands of Skene	SC018533	-	-	-	1,717	-	2,159	-	6	(23)	-	-	3,859
Lands of Torry	SC021299	-	-	-	1,649	-	-	-	41	(16)	-	-	1,674
Total		8	128	2,701	3,366	-	3,312	400	50	(56)	(150)	-	9,759

The above table shows the balances of the individual trust fund before the removal of intra trust transactions as both the Guildry (40%) and the Bridge of Don Trust (30%) are invested in Lands of Skene. The table below shows the individual balances after the removal of these transactions.

Charity Name	Charity Number	Individual Trust Balances after adjusting for intra trust transactions											Total £'000s
		Gilts £'000s	Equities £'000s	Investments £'000s	Heritable Property £'000s	Stock £'000s	City Council Loans Fund £'000s	Cash at		Creditors £'000s	Provision £'000s		
								Bank £'000s	Debtors £'000s				
EEIF	SC025063	8	128	-	-	-	47	-	-	-	-	-	183
Guildry	SC011857	-	-	-	-	-	648	400	3	(14)	-	-	1,037
Bridge of Don	SC018551	-	-	-	-	-	157	-	-	(3)	(150)	-	4
Bridge of Dee	SC021297	-	-	-	-	-	34	-	-	-	-	-	34
Alexander McDonald Bequest	SC018568	-	-	-	-	-	32	-	-	-	-	-	32
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	27	-	-	-	-	-	27
Lands of Skene	SC018533	-	-	-	1,717	-	2,367	-	6	(23)	-	-	4,067
Lands of Torry	SC021299	-	-	-	1,649	-	-	-	41	(16)	-	-	1,674
Total		8	128	-	3,366	-	3,312	400	50	(56)	(150)	-	7,058

Independent auditor's report to the trustees of Aberdeen City Council Charitable Trusts and the Accounts Commission of Scotland

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Aberdeen City Council Charitable Trusts for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of Aberdeen City Council Charitable Trusts as at 31 March 2017 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Trustees for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the charity and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinion on other prescribed matter

We are required by the Accounts Commission to express an opinion on the following matter. In our opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters

Andy Shaw, for and on behalf of KPMG LLP

Saltire Court,
20 Castle Terrace,
Edinburgh
EH1 2EG

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Progress
REPORT NUMBER	IA/17/014
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of Internal Audit's progress against the approved 2016/17 and 2017/18 Internal Audit plans.

2. RECOMMENDATIONS

- 2.1 The Committee is requested to:
- 2.1.1 Approve the rescheduling of audits relating to PECOS and the Fixed Asset Register so that they are scheduled to be reported to Committee in February 2018, and otherwise
- 2.1.2 Review, discuss and comment on the issues raised within this report and the attached appendices.

3. BACKGROUND / MAIN ISSUES

- 3.1 The Internal Audit plan for 2016/17 was approved by this Committee on 9 March 2016. The plan included an indicative Committee date by when it was planned to report each audit and progress against the plan has been reported to each subsequent meeting of the Committee.
- 3.2 Appendix A to this report shows progress with the remaining outstanding audits contained in the plan and a summary is shown in the following table. Updates shown in the attached appendix that are in italics are those that have been reported to Committee previously.

Planned Audit Status	As at 13 September 2017 by Original Target Committee Date						%age
	Jun 16	Sep 16	Nov 16	Feb 17	Jun 17	Total	
Complete	5	5	5	6	2	23	88.5
Moved to 2017/18 or 2018/19 (*)	0	0	0	0	3	3	11.5
Total	5	5	5	6	5	26	100.0

(*) As agreed by the Audit, Risk and Scrutiny Committee on 23 February 2017.

- 3.3 It has taken longer than anticipated to conclude the previous year's audits which has had a knock-on effect on the 2017/18 audits as detailed below.
- 3.4 The Internal Audit plan for 2017/18 was approved by this Committee on 23 February 2017. The plan included an indicative Committee date by when it was planned to report each audit and progress against the plan has been reported to each subsequent meeting of the Committee, although the Committee was advised that some of these may change in order to ensure that External Audit could place reliance on specific work. These changes have yet to be confirmed.
- 3.5 Appendix B to this report shows progress with the audits contained in the plan and a summary is shown in the following table.

Planned Audit Status	As at 13 September 2017 by Original Target Committee Date						%age
	Jun 17	Sep 17	Nov 17	Feb 18	Jun 18	Total	
Complete	2	3	0	0	0	5	17.2
Draft Report Issued	1	0	0	0	0	1	3.5
Work in Progress	0	2	2	1	0	5	17.2
To Start	0	1	4	7	6	18	62.1
Total	3	6	6	8	6	29	100.0

- 3.6 Progress has been slower than anticipated and reasons are detailed in Appendix B.
- 3.7 Further factors which have impacted on progress include the resignations of three Assistant Auditors. A recruitment exercise has been completed and replacements appointed, but induction will take some time and is likely to impact on future deadlines. In addition, Internal Audit has undertaken additional work relating to certifying grant claims made by the Council in respect of European Interreg projects. This work was previously undertaken by Finance and the requirement for it to be transferred to

Internal Audit was not identified during the audit planning process. These claims have strict deadlines which have, so far, been achieved.

3.8 When the Internal Audit plan for 2017/18 was agreed by Committee, it was in the knowledge that external audit planned to place reliance on certain aspects of the planned Internal Audit work. In order for external audit to place reliance, they have a requirement that there be at least eight months of data, relating to the financial year in question, from which Internal Audit can select its samples. The audits on which external audit plan to place reliance have now been confirmed as:

- Capital Plan (original target Committee date = April 2018)
- PECOS System (September 2017 – propose February 2018)
- Fixed Asset Register (November 2017 – propose February 2018)
- Financial Ledger System (February 2018)
- YourHR (February 2018)
- Capital Contracts (February 2018)

3.9 In view of the above, audits on PECOS and the Fixed Asset Register will be delayed in being reported to the Audit, Risk and Scrutiny Committee, and Committee is requested to approve this delay. There will be some pressure in achieving the February dates detailed above but Committee will be kept advised of progress.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Where planned progress is not maintained, there is a risk that sufficient work will not have been completed by the end of the financial year for Internal Audit to complete its annual opinion on the Council's control environment.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for

Committee to note Internal Audit's progress against the Internal Audit plan. The proposals in this report will have no impact on improving the staff experience.

- 7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.
- 7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.
- 8. **APPENDICES**
 - 8.1 Appendix A – Progress with 2016/17 Internal Audit Plan.
 - 8.2 Appendix B – Progress with 2017/18 Internal Audit Plan.

9. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01224) 664184

APPENDIX A

PROGRESS WITH 2016/17 INTERNAL AUDIT PLAN REVIEWS NOT PREVIOUSLY REPORTED TO COMMITTEE

Note – where updates have been seen by Committee previously these are shown in italics

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CROSS SERVICE

ALEOs	Consider how Services manage their ALEOs including payments and performance.	Draft report due to be issued	10.01.17	Red	<i>Services had not provided information requested during the audit process. Auditor was following up on a regular basis</i>
		Draft report issued	12.04.17		
		Management response due	04.05.17	Red	
		Management responses received: - Education & Children’s Services - Economic Development - Finance - Health & Social Care Partnership - Land and Property Assets (complete)	05/17.05.17 17.04.17 & 17/30.05.17 17.05.17 & 13.06.17 23.05.17 18.05.17		
		Revised draft issued to Service	28.06.17	Amber	
		Responses received Meeting with Finance Final draft issued to Service Final draft agreed	12.07.17 27.07.17 28.07.17 01.08.17		
Final report issued	01.08.17	Green			
Original target Committee date	23.02.17	Red			
Anticipated submission to Committee	22.06.17				
Amended submission to Committee	26.09.17				
Actual submission to Committee	26.09.17				

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CORPORATE GOVERNANCE

Benefits	Consider whether benefits being paid to claimants are supported by appropriate documentary evidence, that the calculation of benefit is accurate, and that it has been properly recorded for subsidy purposes. To use Audit Scotland documentation to allow specific reliance to be placed on work done.	Draft report due to be issued	28.04.17	Green		
		Draft report issued	28.04.17			
		Management response due	26.05.17	Green		<i>Meeting held on 06.06.17 to discuss and further evidence provided</i>
		Management response received	30.05.17			
		Final draft issued to Service	26.06.17	Amber		Meetings held in intervening period
Final draft agreed	31.07.17					
Final report issued	31.07.07					
		Original target Committee date	22.06.17	Amber		
		Amended submission to Committee	26.09.17			
		Actual submission to Committee	26.09.17			
Disclosure Checks	Consider whether arrangements in place to ensure that appropriate employees / volunteers have been checked are adequate. Specific testing will be targeted at staffing groups working with particularly sensitive groups.	Draft report due to be issued	27.02.17	Green	<i>Change requested by Service as they were dealing with a review by Disclosure Scotland</i>	
		Changed to	28.04.17			
		Draft report issued	28.04.17			
		Management response due	26.05.17	Green	<i>Responses resulted in further queries from Internal Audit that needed to be addressed before the report was progressed.</i>	
		Management response received:				
		- HR (partial response)	10.05.17			
- C&PS	17.05.17					
Final draft issued to Service	06.06.17	Amber	The Service's response to one recommendation needed further discussion.			
Final draft agreed	11.08.17					
Final report issued	11.08.17	Green				
		Original target Committee date	22.06.17	Amber		
		Amended submission to Committee	26.09.17			
		Actual submission to Committee	26.09.17			

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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INTEGRATION JOINT BOARD

The following audit is included in the Internal Audit plan for the Aberdeen City IJB and will be reported to the IJB Audit and Performance Systems Committee before being reported to the Audit, Risk and Scrutiny Committee for information.

Health and Social Care Partnership	Post Integration review of Health and Social Care Intervention as required by Integration Resource Advisory Group (IRAG) Guidance.	Provisional draft report issued	15.05.17		
		Initial meeting to discuss	02.06.17		
		Updated draft report issued	05.06.17		
		Responses from Service:	28.06.17		
			06.07.17		
			27.07.17		
		Meeting arranged to discuss	28.08.17		
		Meeting changed at request of Service	05.09.17		
		Final report issued	19.09.17		
		To be presented to Committee:			
IJB Audit and Performance Systems	21.11.17				
ACC Audit, Risk and Scrutiny	23.11.17				

APPENDIX B

PROGRESS WITH 2017/18 INTERNAL AUDIT PLAN

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CROSS SERVICE

Business Continuity Planning	Ensure that Business Continuity Plans are in place as required by the Business Continuity Policy and that arrangements adequately manage identified risks.	Draft report due to be issued	16.06.17	Green	<i>There were delays in the provision of data requested from Emergency Planning relating to specific BCPs. This has now all been received.</i>
		Draft report issued	16.06.17		
		Management response due	14.07.17	Green	
		Management responses received	12.07.17 & 08.08.17	Amber	
		Final draft issued to Service	13.07.17	Green	
		Final draft agreed	18.08.17	Amber	
		Final report issued	18.08.17	Green	
		Original target Committee date	22.06.17		
		Anticipated submission to Committee	26.09.17	Amber	
		Actual submission to Committee	26.09.17		
Attendance Management	To test corporate compliance with the attendance management policy and determine if it is having a positive effect on attendance.	Draft report due to be issued	28.06.17	Green	Initial delays in HR providing contact details and availability for opening meeting
		Changed to	24.07.17		
		Interim Draft report issued as awaiting information from Services	01.08.17	Amber	
		Management response due	14.08.17	Green	
		Management response received	02.08.17		
		Updated draft issued to Service	08.08.17	Amber	Awaiting input from Health, Safety and Wellbeing Team – meeting 18.08.17.
		Further information received	23/25.08.17		
Final draft issued to Service	28.08.17				
Final draft agreed	30.08.17				
Final report issued	30.08.17	Green			
		Original target Committee date	26.09.17	Green	
		Actual submission to Committee	26.09.17		

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CROSS SERVICE (continued)

Travel Costs	Ensure that travel arrangements and claims are made in accordance with the Council's Travel Policy, Procedure and Guidance.	Draft report due to be issued	29.09.17	Green	
		Draft report issued	N/A		
		Original target Committee date	23.11.17	Green	

Bond Governance	Consider whether arrangements have been put in place to ensure compliance with the London Stock Exchange requirements and safeguarding the Council's credit rating.	Original target Committee date	22.02.18	Green	Not yet commenced
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Capital Plan	Consider whether robust mechanisms are in place for setting, progressing and monitoring the capital plan. It is understood that Council officers are undertaking a review of this area and the outcome of this will help inform Internal Audit's opinion.	Original target Committee date	Apr 18	Green	Not yet commenced
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CORPORATE GOVERNANCE

PECOS System	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled.	Original target Committee date	26.09.17	Green	Not yet commenced
		Recommendation in this Committee report that the target Committee be changed to	22.02.18		

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CORPORATE GOVERNANCE (continued)

Fixed Asset Register	Consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate and that revaluations are undertaken in accordance with recognised best practice. Ensure that a sample of recorded assets exist and those that should be recorded are.	Original target Committee date Recommendation in this Committee report that the target Committee be changed to	23.11.17 22.02.18	Green	Not yet commenced
Financial Ledger System	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled.	Original target Committee date	22.02.18	Green	Not yet commenced
YourHR	Consider whether appropriate control is being exercised over the system and that interfaces to and from other systems are accurate and properly controlled.	Original target Committee date	22.02.18	Green	Not yet commenced
Major IT Business Systems	Ensure that the risk of major IT Business Systems failure is adequately managed.	Draft report due to be issued Draft report issued	06.10.17 N/A	Green	Commencement brought forward to compensate for other audits being rescheduled.
		Original target Committee date	22.02.18	Green	

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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CORPORATE GOVERNANCE (continued)

Post-Election Training for new Council	Ensure that appropriate arrangements were made for training Councillors following the May 2017 Local Government Elections, that training was delivered and was effective.	Original target Committee date	22.02.18	Green	Not yet commenced
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EDUCATION AND CHILDREN'S SERVICES

Application of Health and Safety measures and practices in schools	Consider whether arrangements in place adequately manage risk responsibility in relation to: hazard information, handling and disposal of chemicals; safety in microbiology; material of living origin, and routine fume cupboard testing.	Draft report due to be issued	28.04.17	Amber Green	<i>Discussions with Health, Safety and Wellbeing Team delayed due to annual leave in that Team.</i>
		Changed to	02.06.17		
		Draft report issued	02.06.17		
		Management response due	30.06.17	Red	
		Management response received	18.08.17		
Updated draft issued to Service	22.08.17	Green Red			
Final draft agreed	19.09.17				
Final report issued	19.09.17	Green			
Original target Committee date	22.06.17	Amber			
Anticipated submission to Committee	26.09.17				
Actual submission to Committee	26.09.17				

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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EDUCATION AND CHILDREN'S SERVICES

Care of Children and Young People – Community Care	To obtain assurance that care needs are being identified, planned, and recorded accurately, and that costs charged are appropriate and adequately controlled.	Draft report due to be issued Changed to	02.08.17 29.09.17	Amber	Availability of service management due to external inspection and then departure of lead auditor.
		Original target Committee date Anticipated submission to Committee	22.09.17 23.11.17	Amber	
Placing requests	To review decision making processes and consider whether these are adhered to.	Draft report due to be issued Draft report issued	04.10.17 N/A	Green	
		Original target Committee date	23.11.17	Green	
Nursery Education – Pre-School Commissioned Places	Consider whether statutory obligations are being delivered and that adequate control is exercised over expenditure. To include consideration of plans in place to deliver the Scottish Government's expansion in early education and childcare which comes into force in August 2020.	Original target Committee date	22.02.18	Green	Not yet commenced

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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EDUCATION AND CHILDREN'S SERVICES

Out of Authority Placements	Review progress with implementing the Inclusion Review and consider whether system used to make and review on-going out of authority placements is robust and that alternatives are considered before decisions are made which commit expenditure.	Original target Committee date	Apr 18	Green	Not yet commenced
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COMMUNITIES, HOUSING AND INFRASTRUCTURE

Vehicle Maintenance Workshops	Ensure that adequate procedures are in place to control the function and obtain best value in maintaining vehicles.	Draft report due to be issued	15.09.17	Amber	Delayed due to Auditor leaving Internal Audit
		Draft report issued	N/A		
		Management response due	N/A	N/A	
		Management response received	N/A		
		Original target Committee date	26.09.17	Amber	
		Anticipated submission to Committee	23.11.17		
Building Maintenance – Year End Stock Take	Attend a selection of locations during 2016/17 year end stock taking and ensure accuracy of process. To include review of stock procedures.	Draft report due to be issued	02.06.17	Green	
		Draft report issued	02.06.17		
		Management response due	30.06.17	Amber	Clarification required from Service relating to some points in response.
		Management response received	07.07.17		
		Final draft issued to Service	11.08.17	Amber	
Final draft agreed	15.08.17				
		Final report issued	16.08.17	Green	
		Original target Committee date	26.09.17	Green	
		Actual submission to Committee	26.09.17		

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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COMMUNITIES, HOUSING AND INFRASTRUCTURE

Corporate Landlord Responsibilities – General Fund Property	Ensure that the Council has systems in place that provide assurance over compliance with the legal requirements in relation to its corporate landlord role.	Draft report due to be issued	21.07.17	Amber	
		Draft report issued	08.08.17		
		Management response due	22.08.17	Amber	
		Management response received	07.09.17		
		Final draft issued to Service	08.09.17	Green	
Final draft agreed	13.09.17	Green			
		Final report issued	13.09.17	Green	
		Original target Committee date	26.09.17	Green	
		Actual submission to Committee	26.09.17		
Vehicle Usage	Ensure that adequate procedures are in place to ensure that vehicles are being used effectively for business purposes and any non-business use is appropriately reported.	Original target Committee date	23.11.17	Amber	Not yet commenced
Capital Contracts	Ensure appropriate arrangements are in place regarding the tendering for and monitoring of a sample of capital contracts and value for money is being obtained.	Original target Committee date	22.02.18	Green	Not yet commenced

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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COMMUNITIES, HOUSING AND INFRASTRUCTURE

Stores Purchasing	Ensure that appropriate arrangements are in place regarding procurement of stock.	Original target Committee date	Apr 18	Green	Not yet commenced
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Craft Workers Payroll	Ensure that new Terms and Conditions have been implemented and are being complied with.	Original target Committee date	Apr 18	Green	Not yet commenced
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Homeless Persons – Housing Support budget	Consider whether adequate control is being exercised over income and expenditure, and that best value is being obtained.	Original target Committee date	Apr 18	Green	Not yet commenced
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Internal Transport Tendering Procedures	Consider whether robust tendering procedures are in place and are operating satisfactorily.	Original target Committee date	Apr 18	Green	Not yet commenced
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SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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ADULT SOCIAL CARE

Social Work Transport	Consider whether appropriate arrangements are in place to secure transportation in a cost effective and well managed way.	Draft report due to be issued	27.04.17	Amber	<i>The Public Transport Unit was unable to meet with Internal Audit until 10 May 2017, delaying commencement of audit as planned.</i>
		Changed to	16.06.17		
		Draft report issued	16.06.17	Green	
		Management response due	14.07.17	Green	
		Management response received: Public Transport Unit	29.06.17		
		Social Work	N/A	Amber	
Updated draft issued	19.07.17	Green	Meeting arranged with Social Work to discuss report on 01.09.17		
Management response received: Public Transport Unit	20.07.17				
Social Work	01.09.17	Amber			
Final draft issued to Service	06.09.17	Green			
Final draft agreed: Public Transport Unit	06.09.17	Green			
Social Work	N/A	Amber			
Original target Committee date	22.06.17	Amber			
Anticipated submission to Committee	26.09.17				
Amended submission to Committee	23.11.17			Red	
Social Work Payroll	Consider whether all aspects of payroll administration (new starts, leavers, timesheet completion and authorisation, overtime approval, etc) are adequately controlled.	Original target Committee date	23.11.17	Amber	Not yet commenced

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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ADULT SOCIAL CARE

Social Work Financial Assessments	Consider whether adequate arrangements are in place across the Service to undertake financial assessments in an accurate and efficient manner.	Original target Committee date	23.11.17	Amber	Not yet commenced
Care Management	To obtain assurance that care needs are being identified, planned, and recorded accurately, and that costs charged are appropriate and adequately controlled.	Original target Committee date	22.02.18	Green	Not yet commenced

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 September 2017	Red Amber Green	Comment where applicable
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GENERAL

Contingency - Investigations and additional works.	To undertake investigations and additional works as they arise and to provide a contingency should systems subject to audit not be adequately documented by Services prior to audit.	Additional works being undertaken are detailed in the following tables.		
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First Level Control work in relation to Interreg Projects	Certify six-monthly grant claims made in relation to the following Interreg Projects as required by Interreg Programme Secretariat: <ul style="list-style-type: none"> • HyTrEc2 (Partner) • HyTrEc2 (Lead Partner) • ACE Retrofitting (Partner) • Heat Net (Partner) • BEGIN (Partner) 	First six-monthly grant claim for ACE Retrofitting certified – August 2017 First six-monthly grant claim for Heat Net certified – August 2017		
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Controls in Programme Management Office	Review controls within the Project Management Office to manage projects.	Review requested by Audit Risk and Scrutiny Committee to be undertaken in quarter four of 2017/18 as agreed by Committee on 27 June 2017.		
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INTEGRATION JOINT BOARD

The following audit is included in the Internal Audit plan for the Aberdeen City IJB and will be reported to the IJB Audit and Performance Systems Committee before being reported to the Audit, Risk and Scrutiny Committee for information.

Integration and Change Funding	Ensure appropriate governance is in place to manage delivery of funded projects and use of the funds.	Work is in progress but the report will be presented to the ACC IJB Audit and Performance Systems Committee before presentation to the Audit, Risk and Scrutiny Committee			
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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 September 2017
REPORT TITLE	Information Governance Report & the General Data Protection Regulation
REPORT NUMBER	CG/17/109
CG LEAD OFFICER	Fraser Bell
REPORT AUTHOR	Helen Cannings

1. PURPOSE OF REPORT:-

To provide Committee with an annual report on the Council's Information Governance Performance, and information about the incoming General Data Protection Regulation, and the Council's readiness approach.

2. RECOMMENDATION(S)

It is recommended that committee:

- i. Note the information provided about the Council's information governance performance at sections 3.1 – 3.6 and in the Information Governance Report at Appendix 1.
- ii. Note the information about the General Data Protection Regulation (GDPR) and its anticipated impact on the Council at sections 3.7 – 3.11.
- iii. Note the Council's GDPR readiness approach, as part of the Council's wider information assurance improvement plan at sections 3.12 – 3.14.

3. BACKGROUND

Annual Information Governance Performance Report

- 3.1 The Council's Audit, Risk and Scrutiny Committee agreed the Council's revised and updated Information Governance Management & Reporting Framework in September 2016; as part of this the Committee agreed to receive an annual report in relation to the Council's information governance performance, this is the first of these reports.
- 3.2 Also as directed by Audit, Risk & Scrutiny Committee in September 2016, the Information Governance Group has implemented Quarterly Information Governance Reporting, which brings together performance information in

relation to freedom of information, data protection and information security. This report collates analyses and monitors the Council's performance in relation to compliance with information legislation, and information security, to ensure that trends, issues, incidents, and breaches are dealt with appropriately as they arise by the Information Governance Group.

- 3.3 Ensuring the proper use and governance of the Council's information and data is an ongoing activity. New and changing legislation, systems, staff, and ways of doing business, as well as new and emerging cyber threats all shape and change the environment within which the Council operates in relation to effective use and governance of its information and data.
- 3.4 Keeping up means a careful balancing between the requirement to monitor and be adaptable to our changing environment, and the requirement to agree and implement assurance improvements over the medium term.
- 3.5 For this reason, the Information Governance Group has established an Information Assurance Improvement Plan which will implement the required medium term assurance improvements required. Progress to date on this work has been included in the Annual Report on the Council's Information Governance Performance.
- 3.6 Please refer to **Appendix 1** for the consolidated Annual Report on the Council's Information Governance Performance from July 2016-June 2017.

The General Data Protection Regulation

- 3.7 The General Data Protection Regulation (GDPR) will come into force in the UK on 25 May 2018. The GDPR will have direct effect in the UK without the need for any national implementing legislation. This is the most significant change to privacy legislation since the Data Protection Act 1998 came into force, and will effect changes to the Council's compliance requirements.
- 3.8 The UK Information Commissioner's Office (the ICO), who regulate data protection compliance in the UK, have begun to issue guidance on GDPR, which emphasises the importance of a planned and proactive readiness approach to new GDPR requirements.
- 3.9 The aim of GDPR is to put individuals in control of their own personal data, and the way it is handled by organisations, and to harmonise data protection legislation across the European Union. GDPR brings in other requirements which will impact on the Council's governance arrangements for, and day to day management of, personal data.
- 3.10 These include the Accountability Principle which requires the Council to be able to proactively record and demonstrate how our business activities comply with GDPR; changes to the conditions the Council can rely on for processing personal data; new and strengthened rights for individuals; and the requirement to have a statutory Data Protection Officer.
- 3.11 The penalties for non-compliance will increase from the current maximum of £500,000, to a penalty of up to €20,000,000, or 4% of turnover, whichever is higher.

Readiness Approach

- 3.12 Readiness for GDPR is being managed as a key part of the Council's Information Assurance Improvement Plan for 2017-18, to make sure that the requirements of new regulation are understood and managed as part of our broader interrelated programme of work to manage and improve information assurance.
- 3.13 This programme is establishing the holistic, foundational people, policy, process and learning information assurance components which need to be in place for the Council to be ready for GDPR in May 2018. A key component of the approach will be the embedding of Information Asset Owner roles throughout the Council at a third tier level, who will be accountable for managing information assets under their stewardship in line with corporate standards, and providing regular assurance to the Council's Senior Information Risk Owner (the SIRO).
- 3.14 An update on progress with the Council's Information Assurance Improvement Plan has been included in the Annual Report at **Appendix 1**.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. There are potential indirect financial implications related to penalties for non-compliance, as outlined at section 5.3, below.

5. LEGAL IMPLICATIONS

- 5.1 The Council's use and governance of its information is subject to a variety of legislation including: the Data Protection Act 1998, the General Data Protection Regulation (from 25 May 2018), the Public Records (Scotland) Act 2011, the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004, and the Re-use of Public Sector Information Regulations 2015.
- 5.2 The Annual Information Governance Performance Report at Appendix 1 forms part of the Council's wider Information Governance Management and Reporting Framework, and is a key component of ensuring that the Council is undertaking adequate monitoring of its compliance with the above legislation.
- 5.3 The incoming General Data Protection Regulation will bring in significantly increased penalties for non-compliance with data protection law than currently apply. The maximum penalty for non-compliance with the General Data Protection Regulation is 4% of turnover, or €20 million, whichever is higher.
- 5.4 As outlined in this report, the General Data Protection Regulation introduces other changes to data protection law which the Council will be required to adhere to. The readiness approach outlined is focussed on ensuring that the Council will be in a position to comply with the provisions of the new General Data Protection Regulation when it comes into force, and mitigate the risk that the Council will be subject to enforcement action and financial penalty.

5.5 The UK Government has confirmed that the General Data Protection Regulation will be implemented into UK law, so it is not anticipated that the UK's exit from the EU will impact the Council's requirement to comply with GDPR.

6. MANAGEMENT OF RISK

6.1 Financial

The Annual Information Governance Report, as part of the Council's wider Information Assurance framework, forms part of the Council's mitigation against the risk of non-compliance with applicable Data Protection law, which may lead to enforcement action with monetary penalties and/or financial liability for damages to customers.

6.2 Employee

The Annual Information Governance Report, as part of the Council's wider Information Assurance framework, forms part of the Council's mitigation against the risk that our staff and elected members do not have the information they need to appropriately monitor and have oversight of the Council's information governance performance.

6.3 Customer

The Annual Information Governance Report, as part of the Council's wider Information Assurance framework, forms part of the Council's mitigation against the risk that customers are put at risk of harm due to inadequate management of personal data, and the risk that customers are unable to exercise their legal rights in relation to information and data held by the Council.

6.4 Environmental

No risks.

6.5 Technological

No risks.

6.6 Legal

The Annual Information Governance Report, as part of the Council's wider Information Assurance framework, forms part of the Council's mitigation against the risk that Council is exposed to enforcement or legal action resulting from non-compliance with information legislation.

6.7 Reputational

Realisation of any of the above risks would also be likely to lead to significant reputational damage to the Council.

7. IMPACT SECTION

7.1 Economy

Information and data are key assets of the Council, and recognised in the [Aberdeen City Local Outcome Improvement Plan 2016-26](#) and the [Strategic Aberdeen City Council Strategic Business Plan](#) as critical enablers of the Council achieving its priorities for people, place and economy.

This Information Governance Report, as part of the Council's wider Information Governance Management & Reporting framework, forms part of the Council's assurance measures around our information, to ensure that it is fit to enable the Council to deliver outcomes for our people, place and economy.

7.2 People

As at section 7.1, above.

7.3 Place

As at section 7.1, above.

7.3 Technology

The General Data Protection Regulation requirements will need to be considered where technology is used by the Council to process personal data to ensure functionality meets our compliance requirements.

8. BACKGROUND PAPERS

Being Digital: A Transformation Strategy for the Council
Information Management Strategy

9. APPENDICES (if applicable)

Appendix 1: Annual Information Governance Report

10. REPORT AUTHOR DETAILS

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HEAD OF SERVICE DETAILS

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Information Governance Management

Annual Report

Senior Information Risk Owner



July 2016-
June 2017

1 Introduction

- 1.1 The Council's Audit, Risk and Scrutiny Committee agreed the Council's revised and updated Information Governance Management & Reporting Framework in September 2016; as part of this the Committee agreed to receive an annual report in relation to the Council's information governance assurance. This is the first of these reports.
- 1.2 This report collates, analyses and monitors the Council's performance in relation to freedom of information, data protection and information security, to ensure that trends, issues, incidents, and breaches are dealt with appropriately as they arise by the Information Governance Group.
- 1.3 Ensuring the proper use and governance of the Council's information and data is an ongoing activity. New and changing legislation, systems, staff, and ways of doing business, as well as new and emerging cyber threats, all shape and change the environment within which the Council operates in relation to effective use and governance of its information and data.
- 1.4 Keeping up means a careful balancing between the requirement to monitor and be adaptable to our changing environment, and the requirement to agree and implement assurance improvements over the medium term.
- 1.5 To this end, the Information Governance Group has established an Information Assurance Improvement Plan which will implement the required medium term assurance improvements required. The Information Assurance Improvement Plan is focussed on the following nine key assurance areas:
 - Oversight & Control
 - Legal & Business Requirements
 - Technical & Physical Security
 - Business Continuity & Disaster Recovery
 - Information Sharing & Integration
 - Culture, Awareness & Training
 - Information Preservation
 - Information for Strategic Performance Management & Transformation
 - Realising Information Re-use Value
- 1.6 The Executive Summary at Section 2 of this report brings together the Information Governance Group's key activities from the last year; this includes activity arising from the ongoing monitoring of performance, and measures to improve assurance in the medium term.

2. Information Assurance Improvement Plan: Executive Summary of progress to June 2017

Assurance Area	Key Issues	Improvement Action Taken	Result	Key Next Steps	Value
Oversight & Control	Information Governance related monitoring and reporting fragmented across Council	IG Group developed and implemented Consolidated Quarterly Information Governance monitoring and reporting	Regular quarterly monitoring and reporting in place, with annual reporting to Audit, Risk & Scrutiny Committee	IG Group will continue to monitor and report on IG and to take appropriate remedial action as required	The Council is undertaking appropriate monitoring, and continuously improving assurance around its information and data
	Requirement for joined up approach to effect medium term information assurance improvements	IG Group developed Assurance Improvement Plan: agreed and underway	There's a joined up information assurance improvement plan underway which will implement, monitor and manage sustainable improvement to information governance across the Council	Continue to implement plan and include progress updates in quarterly Information Governance Reports	The Council is continuously improving assurance around its information and data
	Lack of corporate standards in place for data governance	Corporate Data Office established to implement corporate approach to data governance	Regular data forums in place where data quality in key systems is monitored	Develop data governance measures and standards through regular data forums	The Council has the foundational data governance in place required to implement master data management
	Requirement to raise knowledge and awareness amongst third tier managers of their Information Governance related responsibilities	IG Group developed 'Information Asset Owner' sessions and guidance for third tier managers, with sessions to run in September 2017	Clear guidance and supporting training sessions in place for third tier managers setting out their Information Governance related responsibilities	Complete sessions for third tier managers, prioritised by those who handle personal information. Use feedback to feedback from sessions to manage and improve further training or guidance required	Our Senior Managers are confident and knowledgeable about their role in the proper use and governance of the council's Information and data
	Council Information Asset register required to be updated to include information required for GDPR readiness and	Information Asset Register redesigned, and updated with additional fields developed	Information Asset Register fit to enable GDPR compliance activities	Implement a regular Information Asset Assurance programme in place through our Information Asset	The Council has assurance about the management of its information assets

Assurance Area	Key Issues	Improvement Action Taken	Result	Key Next Steps	Value
	compliance			Owners	
Legal & Business Requirements	Council needs to be ready for changes to Data Protection law (GDPR) which are enforceable from May 2018	IG Group developed Assurance Improvement Plan includes activities required for GDPR readiness: agreed and underway	Joined up improvement plan underway which will implement the required GDPR readiness activities	Continue to implement plan and include progress updates in quarterly Information Governance Reports	The Council is preparing appropriately for changes to data protection law as part of a holistic approach to improving the management of its information and data
	Aberdeen City Licensing Board did not have Records Management Plan in accordance with requirements of Public Records (Scotland) Act 2011	Joint working to agree a consolidated and combined Records Management Plan for Aberdeen City Council & Licensing Board	Joint Aberdeen City Council & Licensing Board Records Management Plan approved by Regulator in Feb 2016	Monitor progress through the IG Group and provide formal annual updates to Regulator as requested	The Council and Licensing Board are complying with the requirements of the Public Records (Scotland) Act 2011
	Multiple corporate information and data related policies in place. Potentially confusing for staff and members	Joint working to review information and data policy. Consolidated and streamlined Information Policy developed by IG Group	Corporate Information Policy developed for consideration and approval at Finance Policy & Resources in Sept 2017	Review and update supporting procedures and guidance	Everyone understands what the Council's Information Policy is, what it means for them, and how they comply with it
	Dip in FOI compliance with statutory timescales in March 2017	FOI request media approval process reviewed and revised	FOI Compliance with timescales improved and overall compliance for the period remained high	Continue to monitor FOI compliance figures and take appropriate remedial action as required	To ensure that the Council complies with the Freedom of Information (Scotland) Act 2002
	Increase in data incidents and breaches in comparison to preceding reporting period	IG Group worked with Organisational Development & Communications to analyse underlying causes and design appropriate campaign	'Information Matters' awareness campaign designed and created to run in September 2017	Ongoing monitoring of breaches, analysis of campaign effectiveness and appropriate additional remedial actions required	The Council learns from data incidents and breaches which occur and uses evidence to inform and test appropriate remedial action
Technical &	The Council's firewall required updating to take advantage of advances in available	Next Generation Firewall has been implemented	The Council has up to date firewall protection in place	Tuning and further development of the solution to reach the best operational	The Council is keeping its cyber network protection up to date

Assurance Area	Key Issues	Improvement Action Taken	Result	Key Next Steps	Value
Physical Security	solutions			configuration	
	The Council requires to implement secure email solution for external communication	TLS and SPF implemented	Implement Secure Email Blueprint	Implement DMARK and DKIM	The Council has appropriate security of email communication and assurance for the public
Information Sharing & Integration	Information Sharing guidance and protocols required to be reviewed due to changes in data protection law which are enforceable in May 2018	Information Sharing Protocol (ISP) Register created	The Council understands its current information sharing arrangements	Review sharing arrangements and update agreements where required. Review and update, as appropriate, information sharing procedures, guidance and templates for GDPR readiness	The Council has appropriate governance arrangements in place to continue to share information compliantly with partners when GDPR becomes enforceable
Business Continuity & Disaster Recovery	The Council requires a high level of assurance around business continuity and disaster recovery arrangements for critical systems	95% of Council systems have been risk assessed	The Council understands where its business critical systems are	Joint working with Business Continuity & Emergency Planning to make sure that appropriate arrangements are in place for resilience	The Council understands its assets and can continue to work and recover in the event of an incident
Training, Culture & Awareness	Changes to Data Protection law will mean that the Council's Online Data Protection training course requires updating	IG Group have begun reviewing and updating content, in line with available guidance from regulator	Online training will be redesigned and finalised by the end of the last quarter of 2017	All Staff will be required to undertake appropriate training to refresh their knowledge in the first quarter of 2018	Our Staff have the right knowledge to play their role in the appropriate use and governance of the Council's information and data
	Refreshed and joined up Information Governance related training in place for Elected Members	Joint working between IG Group, Committee Services & Organisational Development to design and plan appropriate sessions	Information Governance training sessions for Elected Members in place for September 2017	Use feedback from sessions to manage and improve further training or guidance required by Elected Members	Our Elected Members have the right knowledge to play their role in the appropriate use and governance of the Council's information and data
Information	Council's response to Scottish Child Abuse	IG Group agreed Retention Schedule be	Corporate Records Retention Schedule	IG Group will continue monitor and update the	The Council is retaining its information in

Assurance Area	Key Issues	Improvement Action Taken	Result	Key Next Steps	Value
Preservation	Inquiry prompted review of retention periods for Council Policy	updated with revised retention period for all Council Policy	revised and updated	Corporate Records Retention Schedule in response to changing legislative or business requirements	accordance with changing legal and business requirements
Strategic Performance Management & Transformation	The Council has a fragmented understanding of its customers because of lack of data integration between key systems	Master Data Management Hub and Integration layer business requirements developed. Logical Data model developed	The Council is ready to procure a Master Data Management Hub and Integration layer	Procurement and implementation of MDM hub and Integration layer	The Council has the capability required to integrate its data about people and place
Realising Information Re-use Value	The Council wants to open up its non-personal data wherever possible to the benefit of its people, economy and place	Open Data Standards have been developed as part of the National Open Data Programme the Council is a part of. The Council has established an open data working group	The Council is working collaboratively to build the foundations required for a sustainable open data programme	Open Data Platform to be implemented and regular open data publishing schedule to be agreed	The Council is opening up its data to benefit the people, place and economy of Aberdeen

3. Information Governance Performance Information July 2016- June 2017

3.1 Data Protection Act 1998

3.1.1 Data Protection Requests

Fig.1: Annual number of requests received

Type of Request	12 months to June 2017	12 months to June 2016
Subject Access Requests	144	100
Third Party Requests	604	350

Fig. 2: Number of requests received over the last 12 months

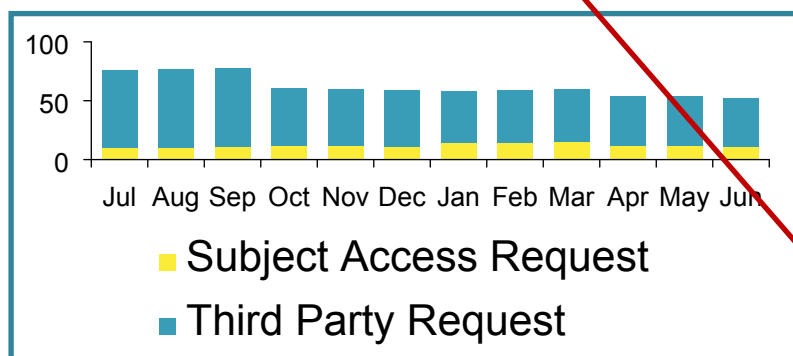


Fig. 3: Requests received by Directorate

Directorate	Subject Access Request	Third Party Request	TOTAL
Aberdeen City Health & Social Care Partnership	36	86	122
Communities, Housing & Infrastructure	9	267	276
Corporate Governance	19	125	144
Education & Children's Services	71	80	151
Office of the Chief Executive	0	0	0
Joint H&SCP E&CS	9	46	55

Data Protection Act 1998 in brief

The Data Protection Act 1998 (DPA) regulates the Council's role, rights and responsibilities in the use, management and protection of our customers' (staff and the public) personal data.

Subject Access Requests

Anyone who we hold personal data about can ask us for a copy of it.

Third Party Requests

Other organisations (for example, Police Scotland or the Care Inspectorate) can also request a customer's personal data under certain circumstances.

Commentary on number of requests received

The number of reported requests has increased by 66% compared with the same period 12 months ago, partly attributable to the Information Governance Group ensuring that all TPR are centrally reported, as follows:

CH&I have been logging CCTV requests since September 2016.

Third Party Requests to the Archive Service have been included in the statistics from July 2016.

Fig. 4: Corporate compliance with timescales for requests

Type of Request	12 months to June 2017	12 months to June 2016
Subject Access Requests	68%	72%
Third Party Requests	97%	94%
Total compliance	91%	89%

Timescales for responding

The Council must provide the personal information requested for SARs within 40 calendar days.

Commentary on compliance

Combined compliance with timescales for SARs and TPRs has been consistent over the past 12 months; however the compliance rates for SARs have improved considerably over the course of this year.

The majority of Data Protection requests are TPRs which tend to be for limited information which can be delivered quickly. SARs for social care records often involve sifting and redacting large and complex case files.

Fig. 5: Corporate compliance with timescales over the last 12 months

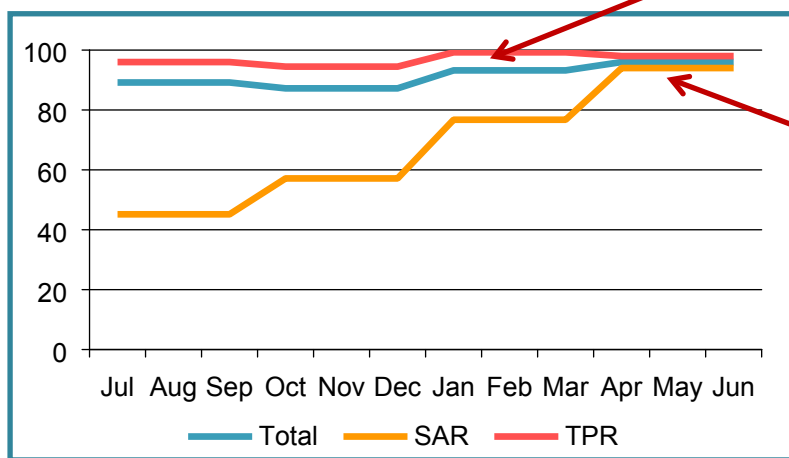


Fig. 6: Compliance with timescales by Council Directorate

Directorate	On time	Late
Aberdeen City Health & Social Care Partnership	91	19
Communities, Housing & Infrastructure	271	1
Corporate Governance	138	0
Education & Children's Services	106	24
Office of the Chief Executive	0	0
Joint H&SCP E&CS	48	4

Late requests

Late requests are those requests closed in the reporting period which exceeded the 40 day calendar day response time.

Commentary on compliance by Directorate

The reasons for late responses are the nature and extent of the workload in the team providing a response, and a large volume of information and complexity of files to be checked and sometimes redacted.

3.1.2 Data Protection Breaches and Complaints

Fig. 7: Annual breaches and data handling complaints

Breaches	12 months to June 2017	12 months to June 2016
Breaches	35	30
Self-Reports to the ICO	0	6
Data Handling Complaints	0	3

Data Protection Breaches

All potential breaches should be reported in line with the Council's procedures. The action taken will depend on the nature of the breach.

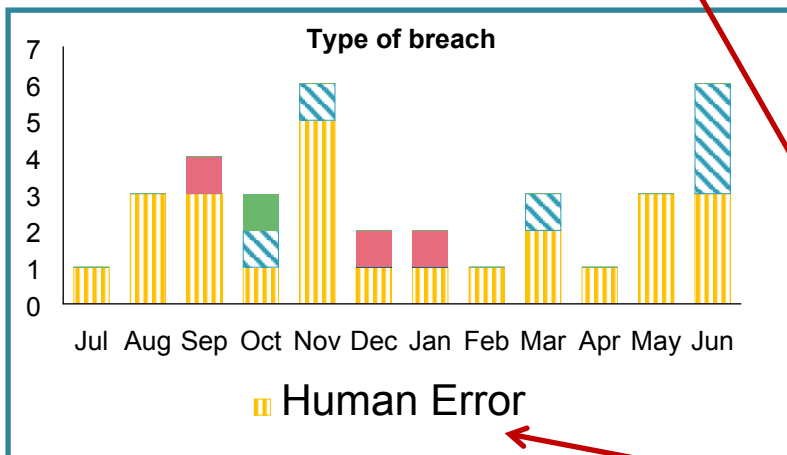
Self-Reportable Breaches

Where the nature of a breach poses significant actual or potential detriment to individuals the Council should self-report to the ICO.

Data Handling Complaints

Anyone who is unhappy with the way that the Council has handled their personal data can make a complaint to us. If they are unhappy with our response to their complaint they may escalate their complaint to the ICO.

Fig. 8: Breaches by type over the last 12 months



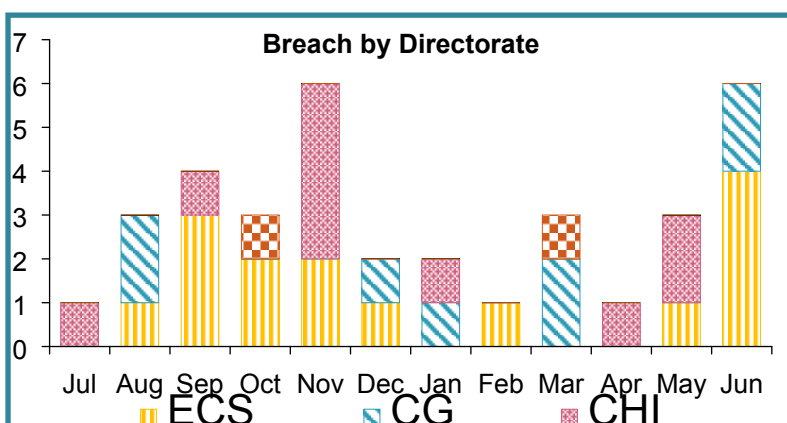
Commentary on number and type of breaches

This year has seen an increase on breaches compared to the previous period. Human error continues to be the most common cause.

Analysis of the underlying causes has been the focus of the Information Governance Group and this has informed the shape and content of the 'Information Matters' awareness campaign which is running in September 2017.

Online Data Protection training for all staff will be revised and updated for GDPR in the last quarter of 2017 and all staff will be required to refresh and update their knowledge in the first quarter of 2018 in readiness for the 25 May 2018 when GDPR becomes enforceable.

Fig. 9: Breaches by Directorate in the period



3.2 Freedom of Information (Scotland) Act 2002 & Environmental Information (Scotland) Regulations 2004

3.2.1 FOISA and EIR Information Requests

Fig 10: Annual number of requests received in the period

Number of requests received	12 months to June 2017	12 months to June 2016
Number of FOISA Requests	1335	1102
Number of EIR Requests	466	485

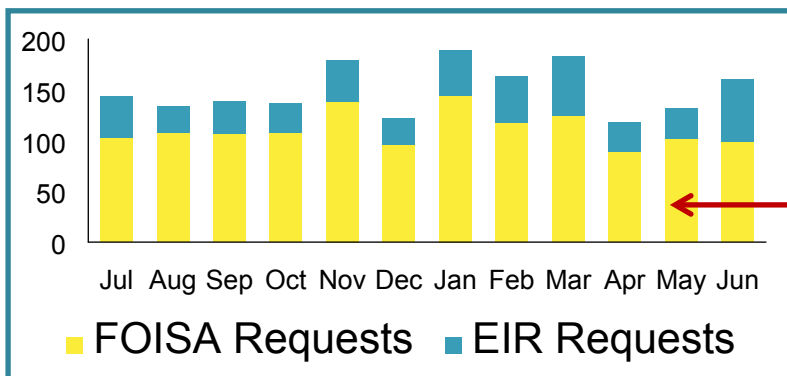
FOISA and the EIRs in brief

The Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIR) give anyone the right to request information held by the Council, subject to certain exceptions.

Timescales for responding

The Council must respond to any request we receive within 20 working days.

Fig 11: Request numbers in the last 12 months



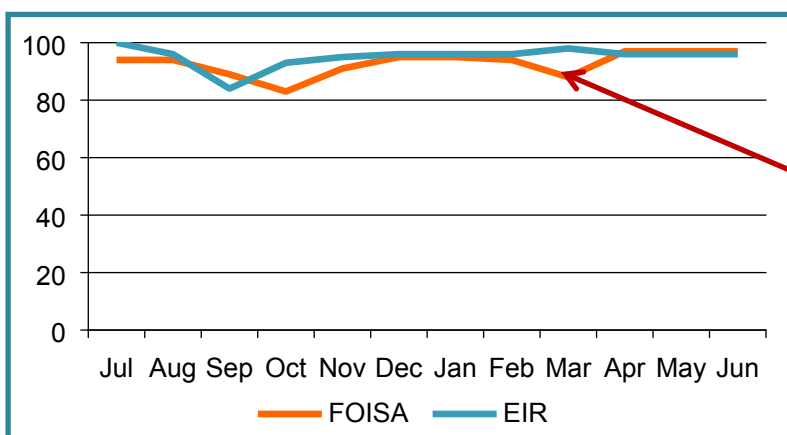
Commentary on request numbers

Request numbers continue to increase year on year. The dips in requests received over holiday periods are consistent with previous years. There was a significant drop in the total number of requests in April and May (possibly due to Scottish and General Elections). There was also an increase in EIR requests in June due, in part, to the fire at Grenfell Tower, London. Other areas of requests include, in Education, topics such as bullying, violent incidents and restraint techniques and, in Land & Property, topics such as statutory notices and inspection reports.

Fig 12: Compliance with timescales in the period

Requests responded to within timescale	12 months to June 2017	12 months to June 2016
FOISA Requests	93%	93%
EIR Requests	95%	91%

Fig 13: Compliance with timescales in the last 12 months (%)



Commentary on compliance

Annual compliance with timescales for FOI requests has averaged 93% over the past 12 months. There was a drop in compliance in March 2017 for FOI requests relating to Procurement and Social Care.

A more efficient approval process is now in place for requests which require checking from the Media Team. Additional support has been provided to the Information Compliance Team to allow officers to focus on tackling possible delays and to provide advice to services in a timely manner.

3.2.2 FOISA and EIR Request Internal Reviews

Fig. 14: Internal Reviews received by type in the period

Type of review received	12 months to June 2017	12 months to June 2016
No response received	6	13
Unhappy with response	20	20

Internal Reviews in Brief

If the Council does not provide a response to a FOISA or EIR request within 20 working days, or if the requester is unhappy with the response we have given, they can ask the Council to review it.

Fig.15: Internal Review Panel outcomes in the period

Type of review outcome	12 months to June 2017	12 months to June 2016
Response upheld	14	15
Response overturned or amended	9	10

Internal Review Panels

Where a requester is unhappy with our response, an internal review panel will decide whether to uphold the Council's response or to overturn or amend it.

3.2.3 FOISA and EIR Request Appeals

Fig. 16: FOISA and EIR Appeals received and closed in the period

No. of Appeals	12 months to June 2017	12 months to June 2016
Received	8	5
Closed	7	5

The Right to Appeal

Where a requester remains unhappy with a response to a FOISA or EIR request after an internal review, they have the right to appeal to the Scottish Information Commissioner for a decision.

Fig. 17: FOISA and EIR Appeal outcomes in the period

Appeal Outcomes	12 months to June 2017	12 months to June 2016
Council response upheld	3	2
Lateness	1	2
Council response overturned	3	1

Commentary on Appeals

There is one ongoing appeal concerning the Hazlehead Crematorium internal investigation report. Information Governance Group will consider any issues arising from this appeal.

1 appeal concerned lateness in relation to Financial Assessment information and it was found that ACC was required to respond.

3 responses were overturned, relating to fees charged to access planning information; confidentiality; commercial sensitivity. The fees charged for accessing planning information have now been reviewed and revised. Information about Investments and Pensions has been released as required.

3.3 Information Security

3.3.1 Cyber Incidents

Fig. 18: Overview of cyber incidents in the period

Incident Type	12 months to June 2017	12 months to June 2016
Internal Cyber Incident Attempts	1	Consolidated figures for comparison are not available
Internal Cyber Incidents	6	
External Cyber Incident Attempts	18089194	
External Cyber Incidents	5	

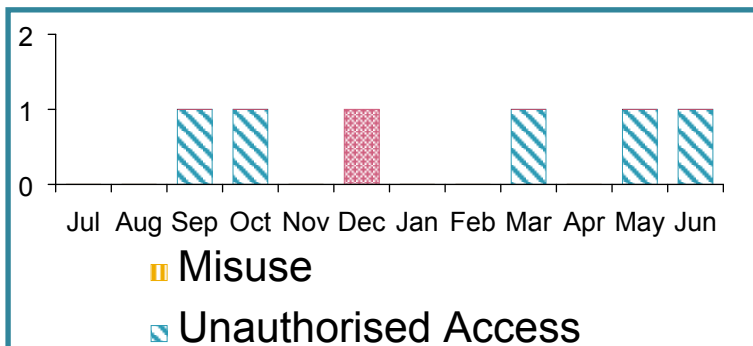
Information Security in brief

The Council is responsible for the integrity, confidentiality and availability of its information. The Council protects it from internal and external threats by using all available controls, and ensuring that any incident which could cause damage to the Council's assets and reputation is prevented and/or minimised.

Internal Cyber Incidents

These are risks or threats to the Council's information software, infrastructure or computer network that originate from within the premises or organisation.

Fig. 19: Internal Cyber Incidents in the period



Commentary on Internal Cyber Incidents

These incidents included password relaying at a school, a compromised Google account, a copyright infringement, web page defacement, and a security issue caused by non-ACC equipment compromising the network. These incidents were mitigated, and did not have a significant impact on business. Appropriate remedial action was taken in each case.

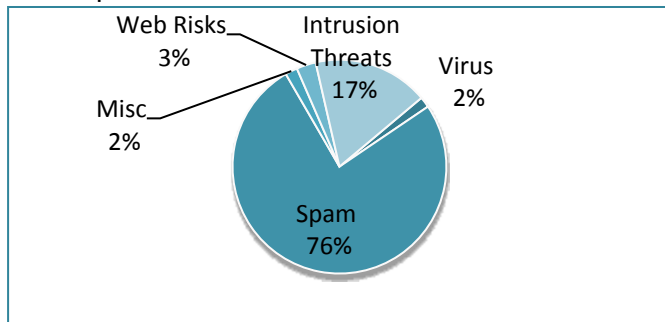
Fig. 20: External Cyber Incidents



External Cyber Incidents

These are risks or threats to the Council's information software, infrastructure or computer network that originate from outside the premises or from the public (e.g. hackers)

Fig. 21: Breakdown of External Cyber Incident attempts in the period



Commentary on External Cyber Incidents

In January the corporate website home page was hacked and defaced. This was managed as a major incident which was subject to separate [reports](#) to this Committee.

Other incidents in this period were mitigated, and did not have a significant impact on business. Appropriate remedial action was taken in each case.

3.3.2 Physical Incidents

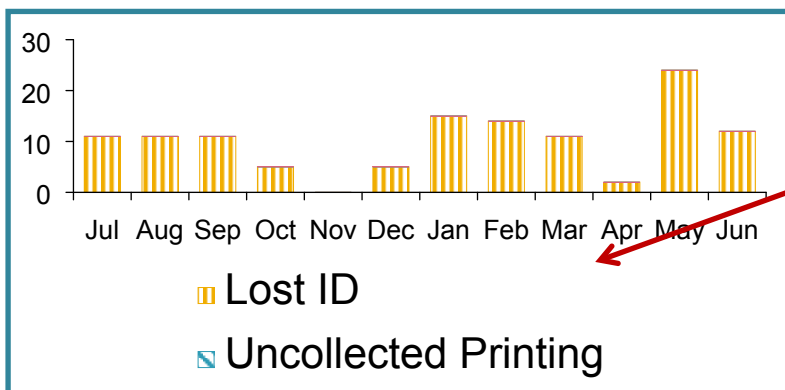
Fig. 21: Physical Incidents in the period

Incident Type	12 months to June 2017	12 months to June 2016
Internal Physical Incidents	121	No figure for comparison
External Physical Incidents	74	76

Internal Physical Incidents

These are tangible and material risks or threats to the Council's information assets that originate from within the premises or organisation.

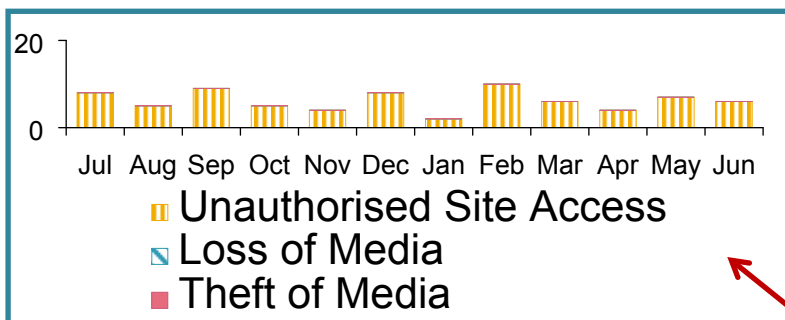
Fig. 22: Internal Physical Incidents by type in the period



Commentary on Internal Physical Incidents

The roll-out of the new printing contract across the estate reduced the security risk associated with uncollected printing by implementing the default secure printing setting.

Fig 23: External Physical Incidents by type in the period



External Physical Incidents

These are tangible and material risks or threats to the Council's information assets that originate from outside the premises or from the public.

Commentary on External Physical Incidents

The number of reported incidences of unauthorised site access is similar to and down very slightly on the same period 12 months ago.

Further information about these instances is collected via Health & Safety reporting.

ABERDEEN CITY COUNCIL

COMMITTEE	AUDIT RISK & SCRUTINY
DATE	SEPTEMBER 2017
REPORT TITLE	RIPSA – OFFICE OF THE SURVEILLANCE COMMISSIONER'S INSPECTION REPORT
REPORT NUMBER	CG/17/112
DIRECTOR	FRASER BELL
REPORT AUTHOR	JESS ANDERSON

1. PURPOSE OF REPORT:-

The purpose of this report is to advise Members of the recommendations arising from an inspection undertaken by the Office of the Surveillance Commissioners (OSC) of the Councils governance of covert activities and compliance with the Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA).

2. RECOMMENDATION(S)

It is recommended that Committee:-

- 2.1 Note the Inspection report;
- 2.2 Instructs the Head of Legal and Democratic Services to ensure that this Committee receives updates on the Council's activities in accordance with paragraph 10.1 of the OSC Inspection Report;
- 2.3 Notes that guidance on test purchases has been amended and communicated to all staff involved with RIPSA activity.

3. BACKGROUND

- 3.1 There are a range of situations in which the Council's employees, in the course of their duties, have to carry out investigations and activities which, by their very nature are covert, i.e. they are concealed, secret or clandestine. In accordance with the Human Rights Act 1998, it is essential that covert investigations are compatible with Article 8 of European Convention on Human Rights (ECHR) which states that: "everyone has the right to respect of family and private life, his home and correspondence".
- 3.2 RIPSA came into force on 29th September 2000 and is applicable in Scotland only. It provides a legal framework for covert surveillance by public authorities and an independent inspection regime to monitor these activities. RIPSA sets out a process for the authorisation of covert surveillance by

designated officers, for the duration of that authorisation and for the review, termination or renewal of authorisations.

- 3.3 The Office of the Surveillance Commissioner (OSC) is responsible for overseeing the use of covert surveillance by designated public authorities based in the UK, of which the Council is one. The aim of OSC is to provide effective and efficient oversight so that the conduct of covert activities by public authorities is human rights compliant in accordance with RIPSA.
- 3.4 OSC conducts an inspection of the Council's arrangements in respect of RIPSA every three years. Previous inspections took place in 2005, 2008, 2011 and 2014. The OSC came to undertake an inspection of the Council's arrangements on 25th April 2017.
- 3.5 In the course of the inspection, the Surveillance Inspector met with the Chief Executive and the Head of Legal & Democratic Services. In addition, the Surveillance Inspector met with one of the Council's RIPSA Authorising Officers, a group of officers who made operational use of RIPSA and Fraud Investigators.
- 3.6 The Inspection Report is contained in Appendix A to this report for Members' information.
- 3.7 The overall conclusion of the 2017 Inspection was that it was a positive inspection, which recognised continued investment in the levels of knowledge and awareness of council staff the Inspector regarded as commendable. The recommendations are intended to assist the Council to continue to improve its standards of compliance.
- 3.8 The Inspection Report makes three recommendations, namely:
 - 3.8.1 The Council should re-visit the provisions of paragraph 3.29 of the Scottish Government Code of Practice for Covert Surveillance and Property Interference and also paragraph 3.25 of the Scottish Government Codes of Practice for Covert Human Intelligence Sources and thereafter ensure that the reporting of its RIPSA policy and activities to elected members accords with those requirements.
 - 3.8.2 It is recommended that authorisations for directed surveillance should be granted for the statutory period of three months in accordance with Note 87 of the Office of the Surveillance Commissioners Procedures and Guidance.
 - 3.8.3 When conducting test purchase activities using juveniles to purchase age restricted goods, the council should review its approach in this regard in consideration of the guidance provided at Note 84 OSC Procedures and Guidance and ensure that clear policy and guidance is provided to its staff as to how to address the RIPSA issues which fall to be considered.
- 3.9 All the recommendations have been considered, accepted and implemented. As such, there is no Action Plan appended to this report, more that the body of the report provides clarification of how officers have responded to those recommendations.

PROPOSAL

- 3.10 Paragraph 3.29 of the Scottish Government Code of Practice for Covert Surveillance and Property Interference provides that elected members of a local authority should review the authority's use of RIPSAs and set the Policy at least once a year. They should consider internal reports on the use of RIPSAs quarterly to ensure its being used consistently with the Policy. Elected members do not have a remit in operational matters concerning RIPSAs (such as any decision making in connection with an authorisation), and as such the specifics of any operation will not form part of the update.
- 3.11 It is considered appropriate for a statement on the Council's RIPSAs policy and the statistical information on RIPSAs activity to be reported to this Committee on an annual basis.
- 3.12 It is recommended that the quarterly updates on policy/compliance is reported to the Audit, Scrutiny and Risk Committee. Such an update would include an update on training delivered, the number of applications "live" and extant, and any new procedural requirements.
- 3.13 In respect of recommendation two in the Inspection report, guidance was provided to Authorising Officers prior to the inspection as it was picked up in an Audit. Whilst the Surveillance Inspector did not criticise the reasons behind shortening the timeframe of the authorisation, clarity was provided in the potential impact of undertaking this approach and has been cascaded to all staff in refresher training earlier this year. Since the inspection and at a subsequent meeting with Authorising Officers, this was raised and discussed and all Authorising Officers are clear that an authorisation should be granted for the duration of three months.
- 3.14 The last recommendation in the Inspection Report directed the Council to reconsider and clarify its position on test purchases and its use or not, of RIPSAs. The Inspection report sets out that clarity is sought on the practice described within the report and for that to be endorsed as policy. The Senior Responsible Officer (SRO) for RIPSAs, Fraser Bell, had not endorsed this practice.
- 3.15 Clarification on the legal tests around the use of test purchases and RIPSAs has now been provided which is endorsed by the SRO to the effect that where an officer from Trading Standards wishes to use a young person to undertake a test purchase of an age restricted item, and an officer is to be present in the premises, it would be prudent for the officer to apply for and obtain, an authorisation for Directed Surveillance prior to conducting that test purchase. This has been communicated to all staff who have been on RIPSAs training and will be uploaded to the Council's intranet.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

Failure to have proper arrangements in place for the management of covert activities may leave the Council open to challenge on the legality of investigations and would have detrimental impact on the operation of a number of areas of investigatory and enforcement work.

Further, the recommendations in the Inspection report only seek to enhance the Council's continued compliance with RIPSA and its policies. The OSC will be looking for the recommendations to be discharged at its next inspection.

6. MANAGEMENT OF RISK

The continued compliance with RIPSA and its policies will ensure that the risk associated with RIPSA activity is managed and mitigated.

Financial- as noted above, there are no direct financial implications which arise out of this report and its recommendations. Non-compliance with human rights law could result in the Council being involved in a litigious claim which may seek compensation but such a risk is unlikely having regard to the recommendations within this report.

Employee- devising clear guidance for staff will ensure that they continue to be trained on the law and any new and relevant developments within that. This in turn, will demonstrate to the Senior Responsible Officer through the audits undertaken by his service of authorisations for RIPSA activity that the Council is complying with RIPSA.

Customer / citizen- approval and implementation of the recommendations within this report will continue to demonstrate that the Council complies with the law around covert surveillance activity. Customers and citizens of Aberdeen may be the subject of a covert surveillance operation and in light of the nature and intrusiveness of a covert activity, it is imperative that the Council continues to have a robust system of governance around RIPSA use.

Environmental- None

Technological- None

Legal- as set out in section 5 above, ensuring all necessary procedures and policy documents are compliant with the law minimises the risk of challenge in respect of any enforcement activity pursued as a result of a covert operation.

Reputational- The OSC will expect the three recommendations to be implemented at by the time of their next inspection, Failure to do so, may result in negative publicity for the Council.

Having regard to the risks highlighted above, and the recommendations within this report, the overall risk to the Council is considered LOW.

7. IMPACT SECTION

This section demonstrates how the proposals within this report impact on the strategic themes of Aberdeen City Council and Community Planning Aberdeen, as set out in the [Aberdeen City Local Outcome Improvement Plan 2016-26](#) and the [Aberdeen City Council Strategic Business Plan](#).

Economy

The proposals in this report have no impact on the Economy.

People

The application and authorisation of covert activity under RIPSAs may result in any person who resides/operates a business or visits the City being a potential target. Any covert activity is properly authorised and complies with the law.

Place

There is no impact on the City of Aberdeen as a result of this report or its recommendations.

Technology

There is no impact on the City of Aberdeen as a result of this report or its recommendations.

8. BACKGROUND PAPERS

There are no background papers.

9. APPENDICES (if applicable)

Appendix 1- OSC Inspection Report 2017

10. REPORT AUTHOR DETAILS

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HEAD OF SERVICE DETAILS

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Office of Surveillance
Commissioners

Office of Surveillance
Aberdeen City Council

26 MAY 2017



Chief
Surveillance
Commissioner

Official -Sensitive

[Signature]

[Stamp]
17 May 2017

OSC Inspection

Dear *Oris Executive,*

I enclose a copy of the report dated 2 May 2017 prepared by Mr David Buxton, Surveillance Inspector, following his inspection of the arrangements made by the Council to secure compliance with the statutory provisions which govern the use of covert surveillance.

I have studied the report and endorse it.

Dealing with it broadly, this is a positive report. The recommendations made following the 2014 inspection have been completed and are discharged. Of these, the arrangements for training and awareness of some of the complexities of the legislation probably provide the best guarantee against any inadvertent contravention. The "Zone" arrangement should underpin the necessary continuity of what I shall describe as the awareness programme, a feature of particular significance in the context of the availability of social media sites for investigative purposes. The issues are discussed at paragraphs 8.15 to 8.19. Between today and the next inspection I believe that the use of developing technology for investigative purposes, particularly for officials with responsibility for childcare and vulnerable adults, will become more commonplace. The imperative is that the officials should not, when acting in good faith, inadvertently contravene the legislation.

The specific recommendations are carefully explained in the text. The arrangements for reporting to elected members are mandatory. I do not myself see this as a vast bureaucratic exercise. What matters is that the elected members are made aware of the facts. Paragraph 7.4 is clear and is summarised as the first recommendation. In one sense this recommendation links up with the issue discussed at paragraph 8.14, and which forms the basis for the third recommendation. The second recommendation, which relates to directed surveillance, will produce an improved process without, as far as I can see, adding greatly to the drain on limited resources.

As I said at the outset this is a positive report which no doubt reflects the leadership noted in the second sentence of paragraph 9.1.

Yours sincerely,



Angela Scott
Chief Executive
Aberdeen City Council
Marischal College
Broad Street
Aberdeen AB10 1AB

OFFICIAL - SENSITIVE



**Office of Surveillance
Commissioners**

OFFICE OF SURVEILLANCE COMMISSIONERS

INSPECTION REPORT

Aberdeen City Council

25th April 2017

**Surveillance Inspector:
Mr David Buxton**

OFFICIAL - SENSITIVE

OFFICIAL- SENSITIVE

DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version.

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File ref: OSC/INSP/074

The Rt. Hon. Lord Igor Judge
Chief Surveillance Commissioner
Office of Surveillance Commissioners
PO Box 29105
London
SW1V 1ZU

2nd May 2017

OSC INSPECTION REPORT – ABERDEEN CITY COUNCIL

1. Date of inspection

1.1 25th April 2017

2. Inspector

2.1 David Buxton.

3. Chief Executive/Managing Director

3.1 The Chief Executive of Aberdeen City Council is Angela Scott and the address for correspondence is Aberdeen City Council, Marischal College, Broad Street, Aberdeen AB10 1AB.

4. Introduction

4.1 Aberdeen City Council (the council) is one of the 32 local authorities of Scotland. The Chief Executive of the council is supported by Directors of Governance, Communities, Housing and Infrastructure, and Education and Children's Services. Additionally the Head of Service, Office of Chief Executive and Head of Communications and Promotions report to the Chief Executive. The Chief Adult Health and Social Care is a position shared with the Health Service and reports jointly to the Chief Executives of Aberdeen City Council, and NHS Grampian.

4.2 The Chief Executive and her team are committed to enhancing their services to make the people of Aberdeen City safer, and in that regard are developing collaborations with other public service leaders in identifying shared priorities and exploring ways of harnessing the potential of new and developing technologies to assist their service delivery. There is a good deal of creativity and innovation evident within the council, which has

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won a plethora of awards in recent years for a wide range of its quality and standards of service.

4.3 The council was last inspected by the Office of Surveillance Commissioners on 24th April 2014, Mr Les Turnbull being the OSC Inspector on that particular occasion.

5. Inspection approach

5.1 The purpose of this inspection was twofold; firstly to review and report upon the exercise and performance of the council in relation to the powers provided pursuant of those sections of the Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA) which fall under the responsibility of the Chief Surveillance Commissioner, and also to review and report upon the performance of those persons upon whom the powers and duties of the legislation are conferred or otherwise imposed.

5.2 The inspection process was agreed with the council in advance. When attending the council headquarters building I was met by the Chief Executive, Head of Legal and Democratic Services and the Team Leader, Governance. A detailed itinerary had been prepared for me. During the inspection process I spoke with various members of staff, examined documentation and provided feedback as to my initial observations.

5.3 Specifically, the members of council staff with whom I met were as follows:

- Angela Scott – Chief Executive
- Fraser Bell – Head of Legal and Democratic Services (Senior Responsible Officer for RIPSA purposes)
- Jess Anderson – Team Leader, Governance (RIPSA Gatekeeper)
- Del Henderson – Trading Standards and Training
- Nicola Murray – ASBIT Manager (including CCTV)
- Matthew Dickinson - Corporate Fraud Officer
- David Francis – Senior Enforcement Officer, Communities and Housing
- Carole Jackson – Protective Services Manager (Authorising Officer).

6. Review of Progress against 2014 Recommendations

6.1 *The council should amend their protocol and procedures documents to address the issues discussed in the body of this report.*

6.2 **Completed** – This recommendation arose from four specific observations documented at paragraph 15 (15(a) to 15 (d) inclusive) of Mr Turnbull's report. The council's RIPSA documentation had been amended to reflect those observations made.

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- 6.3 *There should be an audit of council staff to identify those who hold either an investigative or enforcement function and then provide training tailored to the needs of these officers on RIPSAs to ensure that they have the knowledge required which is commensurate with their responsibilities.*
- 6.4 **Completed** – An audit had been conducted of job profiles across the council and a number of applicants identified across all relevant departments. They have all been provided with RIPSAs awareness training, indeed RIPSAs is now a mandatory training requirement for all council staff having an investigative or enforcement function. Additional RIPSAs training is now provided across the council by means of a programme of RIPSAs master classes delivered throughout a calendar year, supplemented with refresher training as necessary. All authorising officers had been included in this training schedule. The driving force for this commendable approach was Jess Anderson supported by Del Henderson, who combined their delivery to provide a legal interpretation, supported with examples of practical application of the law. This commitment was clearly reflected in the relevant knowledge levels of all the council staff with whom I met, which I considered to be generally of a good standard.
- 6.5 *Authorisations should always address in full the activity authorised, where and how; this should be monitored by the oversight regime which should also be taking steps to ensure that all authorisations are cancelled as soon as they are no longer required.*
- 6.6 **Completed** – The sample of authorisations which I examined was to a satisfactory standard. Oversight of the quality and timeliness of the RIPSAs authorisation documentation is provided by the Team Leader, Governance and each completed document is subject of an audit process which includes completion of a documented checklist for each authorisation granted, so as to ensure that the relevant legal standards have been applied. This is good practice.
7. **Policies, Procedures and Training**
- 7.1 Paragraph 6.4 above deals with the issue of RIPSAs training within the council.
- 7.2 The council maintains a number of RIPSAs related policies which are made widely available to all relevant council staff on the council intranet site called the "Zone". These documents deal with various subjects including surveillance, CHIS, on-line social media and guidance on proportionality. The content of these documents accords with OSC Procedures and Guidance.

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- 7.3 Significantly, the council has processes in place which ensures that all policy and guidance is formally reviewed on an annual basis. In doing so the council ensures that the guidance it provides to its staff remains both relevant and up to date.
- 7.4 One vulnerability within the council's processes is that it does not report matters of RIPSAs policy and activity to elected members in accordance with the requirements of the RIPSAs Codes of Practice. Paragraph 3.29 of the Scottish Government Code of Practice for Covert Surveillance and Property Interference provides that elected members of a local authority should review the authority's use of RIPSAs and set policy at least once a year. The members should also consider internal reports on use of RIPSAs on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose. Similarly paragraph 3.25 of the Scottish Government Codes of Practice for Covert Human Intelligence Sources makes similar provision for the reporting of CHIS matters to elected members, yet makes it clear that the council members should not be involved in making decisions on specific authorisations. The provisions of this Code further suggest that councils may wish to consider providing sufficient training to elected members so that they can discharge their responsibilities in respect of this requirement.
- 7.5 It is recommended that the council should re-visit the provisions of paragraph 3.29 of the Scottish Government Code of Practice for Covert Surveillance and Property Interference and also paragraph 3.25 of the Scottish Government Codes of Practice for Covert Human Intelligence Sources and thereafter ensure that the reporting of its RIPSAs policy and activities accords with those requirements. **RECOMMENDATION 1.**

8. Issues Highlighted

Context

- 8.1 Since the last OSC inspection of this council was conducted in 2014, there have been nine authorisations granted for directed surveillance (no authorisations in 2017, five authorisations in 2016 and four authorisations in 2016). There have been no authorisations granted for CHIS during this period. I examined the papers associated with the four most recent directed surveillance authorisations which had been granted.

Governance

- 8.2 The Chief Executive is the Senior Authorising Officer for the council, the Head of Legal and Democratic Services is the Senior Responsible Officer for RIPSAs and the Team Leader, Governance is the RIPSAs co-ordinator/gatekeeper. There are three trained authorising officers within

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the council. I was told that normally there were four but one had recently left the council and arrangements were in hand to have another staff member trained.

- 8.3 The council maintains a central record of authorisations for all directed surveillance and CHIS authorisations. I examined the relevant record and acknowledged that it recorded all the information required by the relevant RIPSAs Codes of Practice.

Directed Surveillance

- 8.4 In terms of process, members of the council considering a directed surveillance or CHIS authorisation access electronic forms on the council intranet, obtain a unique reference number from the RIPSAs gatekeeper, complete the application electronically and then download the document for a wet signature. The authorising officer does likewise.
- 8.5 In general the applications and authorisations were completed to quite a good standard, with the key legal elements of necessity and proportionality being properly addressed. The recording of the foreseeable collateral intrusion risks associated with directed surveillance activity being authorised was not quite so well addressed in that rather than setting out the nature of the actual collateral intrusion likely to occur (or having occurred in terms of reviews) a less specific and imprecise narrative was provided.
- 8.6 One issue for the council to consider further, in what was generally an acceptable standard of documentation, is the duration of authorisations granted by the authorising officer. A written authorisation for directed surveillance must be for the statutory period of three months. Note 84 OSC Procedures and Guidance (OSCP&G) provides further information in that regard. There were examples within the small sample of authorisations examined, where the authorising officer had authorised directed surveillance for less than the statutory period. Examples are DS000076 and DS000077 where the authorising officer granted an authorisation for one week only. It is acknowledged that the authorising officer in these examples was endeavouring to demonstrate tight control over the authorisation granted, however this may be achieved by means of setting shorter review periods if considered necessary, rather than unnecessarily restricting operational activity by setting shorter authorisation periods than the law allows.
- 8.7 It is recommended that authorisations for directed surveillance should be granted for the statutory period of three months in accordance with Note 87 OSCP&G. **RECOMMENDATION 2.**

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- 8.8 Cancellations were conducted in a timely manner however the cancellation comments of the authorising officer did not address the information recommended at Note 110 OSCP&G, particularly in relation to providing direction as to how any surveillance product (e.g. surveillance logs, photographs, video images) should be managed. To help in that regard, when completing cancellations of directed authorisations, applicants should be specific as to the nature of any surveillance product which has been obtained as a result of their authorised activities. The authorising officers should familiarise themselves with the aforementioned guidance and thereafter ensure that they address their thoughts and endorse their comments accordingly when cancelling a directed surveillance authorisation.

CHIS

- 8.9 No CHIS activity has been authorised within the council for more than three years.

CCTV

- 8.10 The council operates something in the region of 357 CCTV cameras across 42 locations both inside and outside of council property. There is in addition, a small store of mobile deployable cameras which are overt in nature and accompanied by large signs informing the public of their presence. The CCTV system is monitored around the clock by eight members of staff.

- 8.11 At the time of my inspection, the council was in the midst of developing a new protocol with Police Scotland to facilitate requests by the police to use the council CCTV system in connection with directed surveillance activity authorised by the police. It is important that when considering the final content of any agreed protocol to accord with Note 272 OSCP&G that it is for the council to set the terms for use of their CCTV system by the police and others and not have those terms imposed upon them, and also, as a minimum standard the council should see the wording of the police authorisation (redacted if necessary to prevent disclosure of sensitive information) and only allow its equipment to be used in accordance with it.

Test Purchase of Sales to Juveniles

- 8.12 The council conducts a number of operations throughout any given year which involve young people attempting to purchase age restricted items at suspected premises. The nature of the activities undertaken involves an adult in plain clothes covertly watching the young person and any interaction they have with staff working at the target premises. If a test purchase attempt is successful in securing evidence of an offence then

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the activity will be repeated at a later date. On this second occasion the adult being covertly on the subject premises will endeavour to visually record the activity taking place using a council owned mobile phone with recording capability.

- 8.13 I was told that the approach taken within this council was that a directed surveillance authorisation would be sought to accommodate the recording activity being undertaken on the second visit, but that one would not be sought for the first visit. Note 244 OSCP&G provides that it would be desirable to obtain a directed surveillance authorisation in the first instance described.
- 8.14 There was no clarity offered as to whether the decision to not seek an authorisation for directed surveillance in the first instance as being a general practice of the council, rather than considering each case on its merits, was a policy of the council which was agreed by the Senior Responsible Officer, or an expedient approach which had become a matter of informally accepted routine. It is a matter for the council to determine what its approach will be in such circumstances in consideration of the requirements of RIPSA and the guidance proffered by the OSC. It would be sensible in such circumstances for the council to review its approach in this regard and offer clear policy/guidance to its staff, supported by advice from its legal advisors as appropriate.

RECOMMENDATION 3

Social Media and Internet Based Research Activity

- 8.15 The council does not routinely conduct covert research of open source and social media sites. Indeed I was told that there was a single non attributable on line persona on Facebook in use, which is simply used for single access research in connection with fraud related activity.
- 8.16 The ability of the council to conduct research of open source information which is published in the public domain using the internet is more and more becoming a core requirement of organisations who seek to protect or work in support of the public interest. Whether it is to acquire information in support of an operation or investigation, or obtain information which aids the assessment of risk to others or indeed council front line staff, activity of this nature is not always confined to those departments within organisations who undertake an investigative role.
- 8.17 Of course the primary consideration from a RIPSA perspective is that in some circumstances the repeated viewing of publicly posted information which is placed on social media sites may amount to be considered as being private information, and if conducted covertly the activity being undertaken may amount to being considered to be directed surveillance

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and therefore requiring of an authorisation under the Act. Staff who do not routinely work in investigative or enforcement departments may not always be aware of these issues and therefore may be at risk of acting in contravention of RIPSA.

- 8.18 Similarly, in the absence of clear corporate guidance, staff may not realise that the use of their personal social media facilities to conduct council related research may risk compromising themselves and the work of the council. In this particular regard, such activity using personal resources should be expressly prohibited by the organisation.
- 8.19 The policy currently in use by the council appears satisfactory for its current purpose. However the demands and pressures for the council to become more able within the digital domain, and with it the requirement for the council to demonstrate that it acts lawfully, ethically and with integrity when conducting such activities, will doubtless continue to grow. The importance of keeping current guidance under review as these pressures develop, and developing close cooperation by the council with other organisations such as the police, are essential ingredients of the council regime going forwards which will help to ensure that breaches of the legislation are less likely to occur by well meaning members of staff.

9. Conclusions

- 9.1 This was a positive inspection in many regards. I was particularly impressed by the attitude of the Chief Executive and the determination and approach of the Team Leader Governance to their respective responsibilities under the terms of RIPSA. The continued investment in the levels of knowledge and awareness of council staff is commendable and acknowledged. It was particularly refreshing to encounter a number of council officers from a number of departments and disciplines who had a good understanding of the RIPSA legislation, regardless of the infrequency of use of the requisite legislation. In such circumstances this continued investment in a proportionate level of awareness of RIPSA amongst staff will help ensure that good standards of legislative compliance continue to be achieved, and breaches of the law less likely to occur. These are after all, matters of significant public interest and confidence.
- 9.2 The recommendations made within this report are intended to assist the council to continue to improve its standards of compliance.
- 9.3 My thanks are extended to Mrs Jess Anderson for her work in preparing for and facilitating the inspection process.

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10 Recommendations

- 10.1 The council should re-visit the provisions of paragraph 3.29 of the Scottish Government Code of Practice for Covert Surveillance and Property Interference and also paragraph 3.25 of the Scottish Government Codes of Practice for Covert Human Intelligence Sources and thereafter ensure that the reporting of its RIPSAs policy and activities to elected members accords with those requirements.
- 10.2 It is recommended that authorisations for directed surveillance should be granted for the statutory period of three months in accordance with Note 87 OSCP&G.
- 10.3 When conducting test purchase activities using juveniles to purchase age restricted goods, the council should review its approach in this regard in consideration of the guidance provided at Note 84 OSC Procedures and Guidance and ensure that clear policy and guidance is provided to its staff as to how to address the RIPSAs issues which fall to be considered.

David Buxton
Surveillance Inspector

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 September 2017
REPORT TITLE	Review of the System of Risk Management
REPORT NUMBER	CG/17/103
LEAD OFFICER	Fraser Bell
REPORT AUTHOR	Neil Buck

1. PURPOSE OF REPORT:-

- 1.1 The report provides the Committee with an update on progress in implementing the agreed actions to support the delivery of the Risk and Assurance Improvement project.

2. RECOMMENDATION(S)

- 2.1 That the Committee:
- (a) Note the progress made in delivering the project;
 - (b) Note the Corporate Risk Register and the actions identified to improve risk controls.

3. BACKGROUND/MAIN ISSUES / OTHER HEADINGS AS APPROPRIATE

- 3.1 At its meeting on 24 November 2016, the Committee reviewed the action plan relating to the Risk and Assurance improvement project and agreed to receive an update at the June cycle of the Committee and thereafter to receive regular updates on progress with completing the project actions.
- 3.2 The Council carried out a comprehensive review of the system of risk management during 2016 and at its conclusion, agreed an action plan to take forward a number of actions to improve the system. Notable amongst these actions were improving our risk identification mechanisms, strengthening the level of assurance the Council's senior management can take in the effectiveness of risk controls and mitigation and the agreement of a process to inform escalation between tiers of risk management. Appendix 1 details the actions in the project plan and updates against actions are provided
- 3.3 KPMG carried out a piece of work to map assurance to two corporate risks and this model is now being rolled out to the remaining risks in the register. The Corporate Risk Register is reviewed by CMT each month and the register is appended to this report. (Appendix 2)
- 3.4 Assurance maps are used to identify sources of internal and external assurance that risk controls are effective. Although the maps have not been included in the report, the register details the control actions in place for each risk. Progress in completing the actions is documented so that control effectiveness can be similarly plotted over time. As assurance maps are developed for medium to long-term risks. Assurance

gaps are materialising and these are than subject where necessary, to assurance actions.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report but the report deals with the highest level of risk and this process serves to identify controls and assurances that finances are being properly managed.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report but the Corporate Risk Register serves to manage many risks with implications for the legal position and statutory responsibilities of the Council.

6. MANAGEMENT OF RISK

- 6.1 The report provides information on the Council's system of risk management and the improvements designed to make the system robust and fit for the changing social, political and economic environment in which we exist, so that all risks attaching to the Council's business and strategic priorities may be identified and managed.

7. IMPACT SECTION

7.1 Economy

Robust risk management arrangements are essential to the identification and control of risks with the potential to impact the Council's strategic priorities and the objectives set out in the Local Outcomes Improvement Plan, which support our commitment to a prosperous economy. The mapping of assurances to risks, as set out in the appended action plan summary, will evidence to the Council's senior managers gaps in the strength of those controls which can then be addressed.

7.2 People

Some corporate risks have the potential to impact both the safety and wellbeing of our citizens and communities. In addition, action is taken to identify the impact of some risks on the wellbeing and experience of our staff. The emphasis on proper risk controls and identifying mitigating actions which are aligned with our strategic and service business and improvement planning processes, as documented in the action plan, ensures that all such risks are effectively managed.

7.3 Place

The Council's commitment to creating a city which is a chosen destination to live, invest, work and visit is reflected in our Strategic Business Plan and the Local Outcomes Improvement Plan. The Risk and Assurance project aims to ensure that all risks impacting that commitment are identified timeously and subjected to appropriate risk management techniques, in order to maximise delivery of those outcomes.

7.4 Technology

The strong horizon scanning mechanisms outlined in the action plan are designed to maximise opportunities to strengthen our commitment to digital place and enabling technology and to mitigate risks to the success of that commitment.

8. BACKGROUND PAPERS

Risk and Assurance Project Workplan

9. APPENDICES

Appendix 1 (Risk and Assurance Project Action Plan Summary)
Appendix 2 (Corporate Risk Register)

10. REPORT AUTHOR DETAILS

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Appendix 1 Risk Management Review Action Plan

No.	Action	Deadline	Status	Comments
1	Clearly align our strategic objectives with risk management and risk reporting systems	31/12/16		There is a single corporate risk register and the risks contained within it and the directorate risk registers are aligned with the Council's strategic priorities.
	(i) Align corporate risks with Strategic priorities			
	(ii) Align directorate risks with Strategic priorities.			
2	Ensure that the revised risk management strategy incorporates risk management objectives	28/02/18		This action will take account of other developments during the life of the project including most importantly, the development of an assurance framework for the Corporate Risk Register, as well as the implications of the Target Operating Model. Work on a revised strategy has begun.
3	Streamline risk reporting and escalation using risk scores.	28/02/18		This will be incorporated into the revised Strategy.
4	Streamline risk reporting to service and directorate committees include review of their risk registers. Explanatory note: Directorate risk registers should be reported at least quarterly to SMT / DLT meetings. Risk registers should be aligned with service planning so that the output of PESTLE and SWOT analyses and risks to the achievement of priorities, are reflected.	31/03/17		Reporting of risk registers to management teams and within 1-2-1 packs is embedded. Corporate Management Team have approved reporting of Directorate Risk Registers along with Service Improvement Plan data twice-yearly. The Local Resilience Group requested to CMT that all service risk registers are in place and that reference to Business Continuity Plans are properly reflected through the BCP process in services.
	(i) Ensure directorate risk registers are up to date and included in director / chief executive 1-2-1 packs			
	(ii) Align risk reporting with performance reporting to provide SMTs / DLTs with risk registers along with performance scorecards quarterly.			
	(iii) Report directorate risk registers to service committees twice yearly.			
5	Compile an assurance framework which describes components of assurance system for compliance and for transformation. Ensure risks are identified, evaluated, controlled and have appropriate assurance mapped out in order to inform internal audit planning for the 2017/18 financial year.	31/12/17		KPMG completed in March a risk assurance mapping exercise against two corporate risks. This model is being implemented on all medium or longer term risks. These assurance maps are being reviewed on an exception basis by the CMT. Controls and assurances are properly segregated in the corporate risk register allowing for both control and
	(i) Amend the risk register formats to include assurances on the corporate risk register			

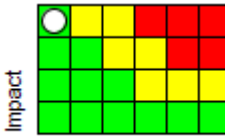
	(ii) Reinforce the assurance mapping task by building review of assurances into Council Business cycle.			assurance gaps to be identified and addressed.
	(iii) Define and communicate the distinction between controls and assurances			
6	Standardise risk register and recording system and terminology as far as possible, to validate the use of risk scores for escalation, metrics for success of mitigating actions and to incorporate different dimensions of impact.	31/12/17		The standardised risk register template has been distributed to all Directorates. A glossary of risk management terminology has also been distributed. The creation of control action plans for each corporate risk means that key risk indicators for completion of actions may now be set up. This will be in place by the end of the year.
	(i) Produce new risk register format for corporate and directorate level risks.			
	(ii) Establish key risk indicators which evidence that mitigation is successful.			
7	Develop an action tracker to assist the CMT in closure of actions	30/04/17		An action tracker has been developed. Due to the roll out of assurance mapping for the corporate risk register, assurance actions are being identified along with control actions. The finalised tracker will take account of both requirements.
	(i) Action tracker for CMT: should include all collated mitigating actions from corporate risk register with timeline for completion and progress / evidence.			
	(ii) Action tracker for SMTs / DLTs to include all collated mitigating actions from directorate risks with timeline for completion and progress / evidence.	31/12/17		Action trackers for directorate risk registers are being promoted through risk workshops.
8	Using the risk appetite statement, agree with IJB reporting routes for specific papers and establish their place in cycle of business	30/04/17		There are quarterly reports to Council on IJB activities including an update on risk management. A process has been agreed for 'Directions' from the IJB to Council which includes: <ul style="list-style-type: none"> • an appropriate template for consistent use for all Directions; • consultation is undertaken with the Council's Head of Legal Services to provide assurance that proposed Directions are legally competent; • IJB Directions which propose "major changes" to the delivery of services, be issued only following engagement with the Council's elected members; • where IJB Directions are required for the delivery of services, but no "major change" is proposed, these be submitted to the Council annually for information

9	Business analysis input on risk management information needs in relation to software and [b]Evaluate the covalent system - both should be included in the Information Communications Technology (ICT) strategy and plans [factoring in risk registers]	31/12/17		This action has been raised with the relevant officers in the ICT service. There is a review of all critical and non-critical systems under way and this will take account of risk management system requirements as the review proceeds.
10	Support identification and discussion of risk by: (i) Promotion of a range of risk identification methods (ii) Formal training and induction (iii) Prepare and distribute training guidance notes on use of the Covalent system risk module.	Ongoing		A risk management training programme for officers has been under way for 18 months and continues with 81 officers trained to date. Risk software guidance is complete and has been issued to all users. Risk workshops are under way with directorate and service management teams.
11	Hold workshops within Council to discuss and agree risk appetite. Develop an associated risk appetite statement, to underpin Council decision-making. (i) Support identification and discussion of risk by: Use of risk appetite within risk system (ii) Streamline risk reporting and clarity of delegation using risk tolerance levels	31/03/18		This action will now need to take account of the agreement of the Council's Target Operating Model and the Transformation Delivery Programmes and completion has therefore been deferred to 31/3/18.
12	Ensure there is supporting guidance or worked scenarios and advice on induction for elected members on procedures concerning conflict of interest and liability.	10/05/17		Training for elected members has been completed.
13	Establish a risk identification and moderation role for the ECMT which encompasses: <ul style="list-style-type: none"> • Horizon-scanning, discussion and identification of new risks. • Compilation and refresh of corporate operational risk register. • Review of high level risks from directorate risk registers. • Submission of issues for escalation to the CMT for strategic risk register. • Moderation of risk scores in the corporate operational risk register. • Engage heads of services in the recognition and analysis of good risk management 	30/06/17		A corporate issues log is in place with the aim of capturing information from horizon scanning and using peer review and challenge through ECMT. Significant emerging issues are reported to CMT (Stewardship) meetings monthly so that new corporate or service risks may be detailed and managed and risk assessments for existing risk reviewed. The corporate risk register has been comprehensively reviewed and redesigned. A mechanism is in place to escalate / de-escalate risks between the corporate and service tiers. Risk workshops are being conducted with Directors and Heads of Service.
14	Evaluate the system for acceptability and consistency after year one of operation	31/10/17		

Appendix 2 Corporate Risk Register (12/09/17)

Code	Corp001	Risk that our workforce model and ways of working do not meet the requirements of our target operating model.		
Definition	The quality of the workforce is key to the delivery of high quality services and to implementing the transformation and improvement agendas.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> • Inability to deliver outcome • Critical skills shortage • A workforce that is inflexible in adopting new ways of working • A workforce that does not have the capabilities to deliver • Inability to plan against budgetary challenges • The new Target Operating Model will not come to life and deliver the performance edge which it has been designed to achieve • Loss of knowledge and morale as a result of staff departures 	<ul style="list-style-type: none"> • Ineffective control of establishment list • Workforce learning is not aligned to business need • A current employment model that is based on staff performing a range of specific functions and specialising in one service area. • Reliance on traditional notions of leadership - on command and control. Our hierarchical structure has evolved over time, but we now need to consider how we can • Personal approaches to work. • Workforce planning process is not aligned to requirements of target operating model 	Implemented Behavioural Framework	Partially Effective	<p>Impact</p> <p>Likelihood</p>
		Review of reward and recognition.	Partially Effective	
		Distributed Leadership	Partially Effective	
		Modernised Employment Model	Partially Effective	
				Very serious
				Significant
Risk Owner	Morven Spalding	Risk Manager	Claire Hunter	Residual Risk Assessment
Latest Note	This risk is currently undergoing major revision in light of the Council decision to adopt the Target Operating Model and to reflect the requirement to properly align optimal workforce design and management to the new ways of working. Control actions are being devised to support the effectiveness of the identified controls.		14 Sep 2017	<p>Impact</p> <p>Likelihood</p>
				Serious
				Very Low

Code	Corp002	Risk that corporate health and safety and corporate landlord responsibilities are breached		
Definition	The Council is required by law to safeguard its employees and members of the public to ensure their health and safety through effective implementation of the Health and Safety Policy and the proper delivery of corporate landlord responsibilities.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> • Fatality or serious injury to employee or member of the public • Prosecution for failings (criminal) • Compensation claims (civil) • Enforcement action – cost recovery of regulator time • Poor service delivery due to high absence levels • Reputational damage • Increased costs due to absence levels and agency costs 	<ul style="list-style-type: none"> • Lack of control management of H&S Risk • Lack of identification of and completion of suitable training • H&S audits not aligned with required Improvement Plan actions. • Non-reporting and recording of incidents and near misses • Poor or no investigation resulting in identification of remedial action to prevent reoccurrence • Compliance with health and safety management system is not monitored • Poor health and safety culture of organisation 	Plan, Do, Check, Act approach based on known risk adopted in the Health and Safety Policy	Partially Effective	<p>Impact</p> <p>Likelihood</p>
		Effective training regime in place for all key staff	Partially Effective	
		Implemented Directorate Health, Safety and Wellbeing Improvement Plans including embedded reporting and recording arrangements	Partially Effective	
		Corporate health, safety and wellbeing development programme contributes to a competent workforce	Partially Effective	
		Proactive and reactive monitoring of health and safety performance management e.g. Management assurance provided via Directorates and HSW team	Partially Effective	
		Positive H&S risk-aware culture	Partially Effective	
		Health and Safety Committee structure in place for co-ordination and consultation process	Fully Effective	
		Effective mechanism for ensuring all ACC funded or controlled construction work (including devolved budget and internal / external funding streams) is procured, designed and effectively managed / monitored by competent persons	Partially Effective	
		Significant		
Risk Owner	Morven Spalding	Risk Manager	Mary Agnew; John Quinn	Residual Risk Assessment

Latest Note	Fire risk assessment in multi-storey blocks following Grenfell have been completed and provided to CH&I colleagues for action. Contract issues in relation to Solar PV are currently being discussed with legal colleagues. The risk assessment remains Impact - Very Serious, Likelihood - Significant.	28 Aug 2017	 <p>Impact</p> <p>Likelihood</p> <p>Very serious</p> <p>Almost Impossible</p>
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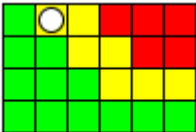
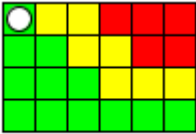
Control Actions

Action	Progress	Original Due Date	Amended Due Date
Training	0%	31-Mar-2018	31-Mar-2018
Description	Identify exact H & S training needs for every employee detail in skills and training matrices from job profiles		
Update	Directorates require to establish a skills and training matrix in job profiles, this has been included in the related Health and Safety Improvement Plans. This will cover health and safety and role specific training to ensure employee competence. In addition a tender exercise is currently being undertaken for corporate health and safety training. Once completed corporate mandatory health and safety training requirements will be shared with Directorates for reference and inclusion in job / post profiles.		
Assigned To	All services		

Action	Progress	Original Due Date	Amended Due Date
Management System	0%	31-Dec-2017	31-Dec-2017
Description	Develop and implement electronic management system to ensure identified actions closed off;		
Update	Work has been undertaken to develop one of the five potential work streams in Covalent, as originally recommended by colleagues. Progress has not been what would have been expected or hoped for, due to a variety of reasons. Recently a new Project Manager has been appointed to review progress to date and provide guidance on the way forward.		
Assigned To	Mary Agnew		

Action	Progress	Original Due Date	Amended Due Date
Improvement Planning	25%	31-Mar-2018	31-Mar-2018
Description	Ensure H&S Improvement Planning supports strong H&S culture and improvement actions.		

Update	<p>The Corporate Health and Safety Improvement Plan was presented and discussed at CMT on 29.06.17. This along with the Directorate Health and Safety Improvement Plans were presented and discussed at the Corporate Health and Safety Committee (CHSC) on 25.08.17. It was agreed that the annual report for both the Corporate and the Directorate Health and Safety Improvement Plans would be submitted at its June meeting to allow them to fit into the financial year. This will allow consistent benchmarking and prevent delayed review by the CHSC if submitted along with the Directorate Annual reports which are spread across the quarterly meetings. It was also agreed that the Improvement Plans would be submitted to each cycle of the CHSC to ensure that actions were being taken against the items and to give the CHSC and ultimately the Council assurance that risks were being discussed and addressed. Progress is also to be monitored via the quarterly Directorate Health and Safety Committees, as with any other reports going to CHSC the Directorate Health and Safety Improvement Plans should be discussed at the Directorate Health and Safety Committees prior to them being tabled at the CHSC so that full discussions around health and safety is taking place. Reporting of the Corporate Health and Safety Improvement Plan to CMT will be by exception.</p> <p>With all plans they need to be reviewed on an ongoing basis in light of new knowledge to ensure that they remain valid the focus being on closing out the identified.</p>
Assigned To	Mary Agnew

Code	Corp003	Risk of inadequate levels of assurance that statutory obligations are met and that legislative and policy changes are anticipated or planned for		
Definition	The Council must be aware of its statutory obligations, ensure that these are met and plan for changes in legislation and policy and ensure that risks to functions and services are managed and opportunities seized.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> • The potential impact will relate to the nature of policies or legislation on which the Council engages, or does not engage. • Non compliance with legislative requirements is, clearly, highly significant legally and also potentially in terms of service to customers, reputation and finances. • Opportunities to influence policy and legislation is also highly context specific in terms of impact 	<ul style="list-style-type: none"> • Poor horizon-scanning • Poor risk identification processes • Absence of risk-aware culture • Dysfunctional relationships with legislation and policy-making bodies • Absence of clear negotiation opportunities with Scottish Government over fiscal matters • Lack of robust internal communication processes • Poor strategic and service planning processes • Inadequate assurance mapping to key strategic risks 	Embedded legislation and policy tracking with consultees consistently providing effective feedback	Fully Effective	 <p>Likelihood</p>
		Management engage both officers and elected members to provide input where required.	Partially Effective	
		Robust 1-2-1 structure CE/Director and Director/HOS which includes review of legislation / policy monitoring and documented remedial actions.	Partially Effective	
		Senior management monitor assurances against key corporate risks and direct actions as required.	Partially Effective	
				Very serious
				Very Low
Risk Owner	Fraser Bell	Risk Manager	Martin Murchie	Residual Risk Assessment
Latest Note	<p>The development / improvement plan for the system of risk management is part of the Performance, Risk and Improvement work stream of the corporate change programme and includes the implementation of a risk assurance map. To bring the likelihood of this risk down the assurance map will have to be complete and, potentially, rolled out beyond strategic risks to an operational level.</p> <p>Further development in broadening the identification and communication routes for relevant issues is being progressed through the Performance, Risk and Improvement work stream.</p> <p>Opportunities will be taken in embedding the Target Operating Model to further ensure clarity of roles and responsibilities in relation to assurance of statutory compliance and horizon scanning as well as taking advantage of the application of digital technology.</p>		06 Sep 2017	 <p>Likelihood</p>
				Very serious
				Almost Impossible

	The Council's decision to re-join COSLA has implications for engagement with Parliaments, Governments and other decision makers, for example, in the response to legislative consultations and steps are being taken to maximise the benefits of this.		
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Control Actions

Action	Progress	Original Due Date	Amended Due Date
Corporate Issues Log - Issue identification and assessment	50%	30-Sep-2017	31-Dec-2017
Description	Develop and roll-out corporate issues log and consider roll out beyond corporate risks. Strengthen procedures for the identification, assessment and monitoring of "issues" to ensure visibility and consistency across all Directorates		
Update	The issues log is in place but as yet visibility is not optimal. Issues are being advised to the Risk Manager on an ad-hoc basis which is nevertheless actively supporting the drive for improved horizon-scanning. The RiskIssues email account has been notified to all HOS and Business Managers with instructions on the kind of information needed to inform the issues log. Workshops are planned with all directorates where the risk identification message will be emphasised.		
Assigned To	Neil Buck		

Action	Progress	Original Due Date	Amended Due Date
Assurance Mapping	30%	30-Sep-2017	31-Dec-2017
Description	Develop comprehensive assurance mapping to all corporate risks and consider roll out beyond corporate risk		
Update	Work continues to develop assurance mapping for medium and longer term risks in the corporate risk register. This requires full input by risk owners and managers to be effective. Short-term risks on specific area of impact are unlikely to be suitable for long term assurance mapping.		
Assigned To	Neil Buck		

Action	Progress	Original Due Date	Amended Due Date
Ensure the Council makes appropriate responses to consultations	70%	31-Oct-2017	21-Feb-2018
Description	Ensure the culture supports key managers respond timeously and comprehensively to consultations and that the Council's Scheme of Governance clearly describes responsibility for approving responses to various types of consultation.		
Update	The Council's Scheme of Governance is currently being reviewed. A proposed addition has been drafted which clarifies the terms of delegation to Directors to respond to consultation in certain circumstances, with other matters reserved for elected member approval. It is anticipated that the Scheme of Governance will be considered by Council in February 2018, when approval for this specific delegation will be requested. In the meantime all consultations are logged both on Covalent and the corporate "Horizon Scanning" document. This is fed through CMT and 1-2-1s to ensure clarity on whether responses will be made and on what basis. An agreed form is required in each case.		
Assigned To	Martin Murchie		

Action	Progress	Original Due Date	Amended Due Date
Horizon-Scanning	30%	31-Dec-2017	31-Dec-2017
Description	Embed robust ECMT horizon-scanning role for risk identification, categorisation and escalation		
Update	Horizon-scanning is becoming established with regard to risk identification. This will be aligned with the horizon-scanning identified as a key requirement of the Target Operating Model as the Transformation Delivery Programmes are progressed.		
Assigned To	TBC		

Code	Corp004	Risk of poor contract management			
Definition	An effective and properly maintained contracts register underpins good supplier management and efficient use of resources				
Potential Impact	<ul style="list-style-type: none"> • Essential services not supported • Scarce resources inefficiently used • Duplication of effort • Negative audit outcomes • Pool of suppliers reduces • Litigation • Reputational damage • Financial targets not met 	Causes	Control Effectiveness		Current Risk Assessment
			Control	Control Assessment	
			Regularly updated contracts register overseen by senior management	Partially Effective	
			Implementation of delegation of powers in standing orders to ensure correct authorisation levels in place	Partially Effective	
			Implementation of contract management procedures monitored by senior management with remedial activity directed where required	Partially Effective	
Robust skills in place for contract managers including commercial awareness / understanding of framework agreements, monitored through supervision	Partially Effective				
				Very serious	
				Low	
Risk Owner	Craig Innes	Risk Manager	Craig Innes	Residual Risk Assessment	
Latest Note	Work is under way to complete the control actions to support effective management of this important corporate risk. The Category Managers have identified no contract issues in their respective categories this month and the risk assessment remains unchanged.		12 Sep 2017		
				Likelihood	
				Very serious	
				Very Low	

Control Actions

Action	Progress	Original Due Date	Amended Due Date
Training	50%	31-Dec-2017	31-Dec-2017
Description	Identify key personnel and deliver contracts management OIL training		
Update	Currently updating e-learning materials to ensure these cover all three councils' requirements. Face to face training and monthly surgeries will be set up in advance of the lead-time for on-line training. Contract management is a key deliverable in the commissioning function within the Transformation Portfolio.		
Assigned To	Sylvia Beswick		

Action	Progress	Original Due Date	Amended Due Date
Business Critical Contracts	60%	31-Dec-2017	31-Dec-2017
Description	Ensure contracts management procedures focus on business critical contracts		
Update	Business critical contracts will be a key area of focus in the delivery of the commissioning function and work continues to ensure these contracts deliver maximum benefits.		
Assigned To	Carol Wright		

Action	Progress	Original Due Date	Amended Due Date
Contracts Database	75%	31-Dec-2017	31-Dec-2017
Description	Complete population of contracts database		
Update	A review of spend against suppliers has identified contracts for which no information is recorded on the contracts database. Category Managers are identifying the owners so that the information can be updated. The procurement guidance notes and training highlight that the update of the database is a vital part of the process.		
Assigned To	Category Managers		

Action	Progress	Original Due Date	Amended Due Date
Launch Procurement Website	75%	31-Dec-2017	31-Dec-2017
Description	-- enter action details here --		
Update	Content is almost complete with work now being undertaken on the publication tool.		
Assigned To	Sylvia Beswick		

Code	Corp005	Risk of not adequately planning for emergencies (as defined by the Civil Contingencies Act 2004) which may affect Aberdeen City and/or an incident having a significant adverse effect on the operations of Aberdeen City Council.			
Definition	The risk could occur through a lack of leadership which results in inadequate planning for and testing for civil contingency events, which results in an inadequate rescue and recovery in the event of a real incident				
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment	
		Control	Control Assessment		
<p>The Council is unable to support or lead the response to an emergency affecting the city and/or is unable to deliver critical functions in relation to:</p> <ol style="list-style-type: none"> 1. Human welfare or the environment 2. The finances of the Council 3. The Council's statutory obligations 4. The Council's reputation 5. The Council's ability to respond to emergencies. 	<ul style="list-style-type: none"> • Failure to review our civil contingencies capacity, capability, structures and policies in terms of maintaining suitable levels of resilience. • Absence of assurances that the risk is controlled. 	Local Resilience Partnership meets regularly and considers and addresses resilience gaps	Fully Effective	<p>Likelihood</p>	
		Local Resilience Risk Register reviewed regularly by LRP to ensure all relevant risks are captured	Fully Effective		
		Senior management review and direct actions to support Critical Action Plan	Partially Effective		
		Prevent and Prepare CONTEST priorities are embedded and reviewed continuously by priority owners	Partially Effective		
		Resilience training of key officers monitored through supervision	Partially Effective		
				Very serious	
				Low	
Risk Owner	Angela Scott	Risk Manager	Derek McGowan	Residual Risk Assessment	
Latest Note	<p>members of CMT attended Opus Resilience exercise on mass fatalities 13/7/17. The BCP Audit Plan has been agreed and actions allocated, still to be approved at AR&S Committee. The Emergency Planning Manager is still working on desktop exercises, including proposed flooding exercise in November 2017.</p> <p>The Organisational Resilience Group met in August 2017 where new actions were allocated including creation / update of BC Plans across the organisation where this is required. The risk assessment remains unchanged.</p>		28 Aug 2017	<p>Likelihood</p>	
				Very serious	
				Very Low	

Control Actions

Action	Progress	Original Due Date	Amended Due Date
Self Assessment	40%	31-Aug-2017	31-Aug-2017
Description	Carry out comprehensive self-assessment to understand the strength of resilience across ACC		
Update	Moderation meeting with HMIC in September. Hackney Council soft testing and reporting back before end of December 2017.		
Assigned To	Derek McGowan		

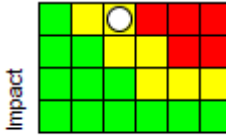
Action	Progress	Original Due Date	Amended Due Date
Critical Action Plan	100%	31-Jul-2017	31-Jul-2017
Description	Creation of Critical Action Plan in terms of response to threat level		
Update	Move to Critical Action Plan has been produced.		
Assigned To	David McIntosh		

Action	Progress	Original Due Date	Amended Due Date
3rd Party Threat	0%	31-Dec-2017	31-Dec-2017
Description	Require assurance from third party providers in terms of resilience to insider threat		
Update	This is an action in the Resilience Group Action Plan.		
Assigned To	Derek McGowan		

Action	Progress	Original Due Date	Amended Due Date
Resilience Training	40%	31-Mar-2018	31-Mar-2018
Description	Training of key officers in resilience planning		
Update	Review of DERC roles and requirements, consideration to extending DERC participation to G17 roles across ACC. Training factored in alongside flooding exercise proposed. .All existing DERCs have received training. We are looking to recruit further names to go on that list. Key officers within services e.g. Care for People (Social Care), Protective Services (Environmental Health/Protection) have and continue to attend training sessions. Head of Communities and Housing attending Emergency Planning College in October for 5 day training.		
Assigned To	TBC		

Action	Progress	Original Due Date	Amended Due Date
Local Resilience Risk Register	100%	31-Dec-2017	31-Dec-2017
Description	Through the Local Resilience Partnership, prepare local risk register of risks affecting Aberdeen, taking account of the Regional, Scottish and UK Risks and define and implement action plans to mitigate risks where non-generic		
Update	Presented to the Local Resilience Group on 29/08/17.		
Assigned To	Derek McGowan		

Action	Progress	Original Due Date	Amended Due Date
CONTEST Planning	0%	31-Mar-2018	31-Mar-2018
Description	Implement CONTEST priorities, particularly Prevent and Prepare (generic resilience planning).		
Update	New initiative, to be taken forward by the Local Resilience Group		
Assigned To	TBC		

Code	Corp006	Risk that the Council is exposed to fraud, bribery and corruption		
Definition	Failure to maintain effective policies, procedures and skills for the identification and investigation of suspected fraud, bribery and corruption, places the Council at risk of financial loss and reputational damage.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> Major financial loss. Reputational damage. Increased external scrutiny.(e.g. Police Scotland, Accounts Commission and other relevant regulators.) Workforce morale adversely affected. Criminal liability Imprisonment Lowering of Council's credit rating. 	<ul style="list-style-type: none"> Absence of clear and adequate procedures relating to Fraud, Bribery & Corruption. lack of staff awareness of policies and procedures relating to F,B&C. Failure to implement policies and procedures relating to F,B&C. Financial procedures inadequate to prevent fraud, bribery and corruption. Insufficient investigatory skills and resources.. Lack of connectivity between internal audit, investigatory and service functions. Lack of clear process for suspected incidences of F,B&C. 	A two yearly review of the Fraud, Bribery and Corruption Policy is diarised by Risk Manager reviewed to review relevance and effectiveness.	Fully Effective	 <p>Impact</p> <p>Likelihood</p>
		Financial regulations (management & control) are reviewed annually, or following changes in relevant legislation, by a senior accountant within Finance.	Fully Effective	
		Investigation staff skills monitored through supervision on a monthly basis and remedial action taken as required in accordance with Corporate Assurance Investigatory Guide.	Fully Effective	
		Clearly defined roles for key officers involved in investigations to ensure no duplication of activity through the Fraud Response Plan set out in the Fraud, Bribery & Corruption Policy.	Partially Effective	
		Guidance on the Zone on the process for reporting suspicions in respect of fraud, bribery and corruption is reviewed and updated monthly by Risk Manager.	Fully Effective	
		Whistleblowing Policy is available on the Zone Policy and was last updated June 2016. It will be diarised by L&DS to review annually to ensure it remains fit for purpose.	Partially Effective	
		Annual report to CMT and Audit Risk and Scrutiny Committee diarised by the Risk Manager to raise awareness of anti-fraud, bribery and corruption activity for assurance and scrutiny.	Fully Effective	
		The Council's fraud response plan is communicated to employees, ALEO and contractors. This is undertaken by holding awareness sessions and making fraud related OIL courses mandatory for new staff.	Partially Effective	
		To minimise the risk of fraud in high risk service	Partially Effective	

		areas dedicated fraud referral polices have been introduced to increase staff awareness of the issues.		
				Very serious Low
Risk Owner	Fraser Bell		Risk Manager	Brian Muldoon
Latest Note	The risk assessment has not changed.		12- Sep-2017	<p>Impact</p> <p>Likelihood</p> <p>Very serious Very Low</p>

Control Actions

Action	Progress	Original Due Date	Amended Due Date
Investigation officer roles	20%	30-Nov-2017	30-Nov-2017
Description	This will be addressed within the fraud, bribery and corruption policy which is currently being reviewed and updated. This has also been incorporated into the Corporate Governance review. The updated policy is due to be presented to the by Finance, Policy and Resources committee on 30 November 2017.		
Update	A review of the Fraud, Bribery and Corruption Policy will be reported to the Finance, Policy and Resources Committee on 1 February 2018.		
Assigned To	Brian Muldoon		

Action	Progress	Original Due Date	Amended Due Date
Whistleblowing Policy	30%	23-Nov-2017	31-Mar-2018
Description	Review the Whistleblowing Policy to ensure it remains fit for purpose.		
Update	The Whistleblowing Policy will be reviewed as part of a new staff governance framework.		
Assigned To	Morven Spalding		

Action	Progress	Original Due Date	Amended Due Date
Promote Council's fraud response plan	80%	30-Nov-2017	30-Nov-2017
Description	This has been incorporated into the training and development plan within the Corporate Governance review. Further discussions are due to take place with Organisational Development on 31 July 2017 to progress a dedicated fraud, bribery and corruption OIL course.		
Update	Agreed that the awareness training would be incorporated into the Corporate Governance review		
Assigned To	Brian Muldoon		

Action	Progress	Original Due Date	Amended Due Date
Fraud referral policies	80%	30-Nov-2017	30-Nov-2017
Description	Blue Badge fraud investigations became the responsibility of Corporate Investigation Team on 22 June 2017. The Council's policy relating to Fraud, Bribery and Corruption, which is due to be presented to the Finance, Policy and Resources Committee on 1 February 2018 will address Blue Badge fraud.		
Update	Three officers are now empowered to enforce Blue Badge Legislation.		
Assigned To	Brian Muldoon		

Code	Corp007	Risk of poor information management and security		
Definition	Inadequate protection for data held by the Council carries risk for the safety of individuals and the ability of the Council to manage its essential functions and to deliver services.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> • Service disruption • Council finances jeopardised • Inadequate performance information • Inability to share services • Reduced capability to deliver customer facing services • Unlawful disclosure of sensitive information • Individuals placed at risk of harm • Prosecution –penalties imposed • Reputational damage 	<ul style="list-style-type: none"> • Lack of oversight of information risks • Inconsistent approach to information and data management and security across the Council • Lack of capability and / or non-compliance by individuals • Human Error • Absence of adequate preventative measures to mitigate against known outsider cyber threats. • Continuous new and emerging cyber threats (so-called day zero attacks) • Absence of corporate protocols when acquiring or changing system solutions so that functionality is inadequate • Absence of adequate preventative measures to mitigate insider threat including physical and system security. • Insider threat not properly managed through recruitment and line management processes. 	File and Data Encryption	Fully Effective	<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: small; margin-right: 5px;">Impact</div> </div> <p style="text-align: center; margin-top: 5px;">Likelihood</p>
		Monitoring of access permissions and privileged users	Fully Effective	
		Information Governance Board led by SIRO provides robust corporate oversight of information assurance arrangements.	Fully Effective	
		Effective information management and security training and awareness programme for all staff.	Partially Effective	
		Critical systems risk assessed and protected appropriately.	Partially Effective	
		Password security controls in place.	Fully Effective	
		Restricted access for key personnel to secure facilities	Partially Effective	
		Fit for Purpose Identity Management System (IDM)	Partially Effective	
		Robust information and data related incident management procedures.	Partially Effective	
		Consolidation of IT and data related activities corporately within IT and Transformation Service.	Partially Effective	
		Appropriate robust contractual arrangements in place with all third parties who provide systems or data processing services.	Partially Effective	
		Clear roles and responsibilities assigned and embedded for all staff for managing & governing information assets across the Council	Partially Effective	
		Corporate Data Office develops and sets standards for corporate data and information management and security.	Partially Effective	
		Continual assessment of new and emerging threats.	Partially Effective	
				Very serious

				Low
Risk Owner	Simon Haston	Risk Manager	Paul Alexander; Caroline Anderson; Steven Robertson	Residual Risk Assessment
Latest Note	Next Generation firewall installed giving up to date virus, web and Intrusion protection, fine tuning of controls. Development and generation of threat analysis reports ongoing. PSN Compliance Health check complete. Remedial action plan in place. Submission to PSN imminent. Internal audit of business critical systems under way. Critical System risk assessment programme underway		07 Sep 2017	<p>Very serious</p> <p>Very Low</p>

Control Actions

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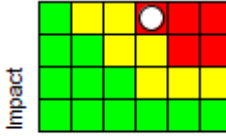
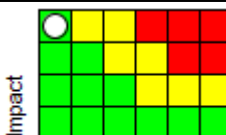
Action	Progress	Original Due Date	Amended Due Date
Information Assurance Roadmap	33%	31-Aug-2017	30-Jun-2018
Description	Delivery of information assurance roadmap for 2017-18, including: <ul style="list-style-type: none"> - Delivery of Council-wide behaviour-based information governance training and awareness programme - Readiness for the requirements of new General Data Protection Regulation - Embedding of Information Asset Ownership roles throughout the organisation 		
Update	Training dates for early September for Elected Members and end September for 3rd Tier Manager to align with Committee paper approval process commencing with CG SMT 8 August. Awareness campaign for all staff post Committee for 4 weeks.		
Assigned To	Caroline Anderson		

Action	Progress	Original Due Date	Amended Due Date
Service redesign	33%	31-Dec-2017	31-Dec-2017
Description	IT & Transformation Service Redesign including consolidation of IT and data activities		
Update	IT consolidation remains on track. The consolidation report has been submitted for approval at the STB. Engagements will commence with heads of service and Service Managers across Council to discuss plans to migrate IT teams out of service areas. A detailed plan of actions and milestones is required and will be drafted in accordance with these engagements. This will also include a review of all day-to-day activities of staff within core IT in preparation for completing re-design of structure.		
Assigned To	Paul Alexander		

Action		Progress	Original Due Date	Amended Due Date
System security		33%	31-Dec-2017	31-Dec-2018
Description	Ensure proper monitoring and maintenance of appropriate levels of system security.			
Update	Appropriate infrastructure monitoring in place. Individual system monitoring arrangements to be analysed in line with ongoing critical system risk assessments.			
Assigned To	Norman Hogg			

Action		Progress	Original Due Date	Amended Due Date
Management systems		10%	31-Dec-2017	31-Dec-2017
Description	Develop use of Security Information and Event Management type systems.			
Update	Project initiated. Requirements being scoped.			
Assigned To	Norman Hogg			

Action		Progress	Original Due Date	Amended Due Date
Information asset controls		20%	31-Dec-2017	31-Dec-2018
Description	Proper electronic and physical security controls for all information assets.			
Update	Risk Assessments of all assets continue; System Risk Assessments first phase nearing completion - over 100 systems identified by Service areas as critical. In parallel, second phase is progressing to confirm that each of these systems have adequate Business Continuity plans in place. Subsequent phases will identify additional security measure requirements.			
Assigned To	Caroline Anderson			

Code	Corp008	Risk that the Council does not appropriately manage its response to the requirements of the National Scottish Child Abuse Inquiry		
Definition	The independent national Child Abuse Inquiry is looking at the abuse of children in care in Scotland from 1930 – 2014. It is expected to last 4 years and will examine what happened, why and where abuse took place, the effects on children and their families and whether organisations responsible for children failed in their duties. The Council will be required to respond to any requests made by the Inquiry under its powers outlined in the Inquiries Act 2005. These requests may include requests for information, production of documents, or requiring individuals to attend to give evidence. Any failure of the Council to comply with such requests may be deemed a criminal offence. The Council needs to manage appropriately the potential impact of the ongoing Inquiry on the people and place of Aberdeen, taking into account our duty of care to any affected children (who may now be adults) and their families. The Inquiry may also prompt those affected to seek compensation from the Council. Currently there is no financial allocation funding to cover any claims or risks and insurance cover is unlikely to be relevant/high enough to counter scale of claims.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
Potential for further harm and distress to be caused to affected children (who may now be adults) and their families • Potential impact on Council staff who may be directly or indirectly affected by the Inquiry. • Significant reputational damage. • Potential for the Council to face criminal prosecution. • Criminal investigations potentially compromised. • Financial impact on the Council due to unknown costs and liability for those affected (<i>Financial impact on ACC due to liability on break-up of GRC and regional liability devolved to ACC</i>)	<ul style="list-style-type: none"> • Lack of a coordinated planned approach to our response • Difficulty locating or interpreting relevant historical records • Lack of appropriate staff resource • Failure to appropriately manage internal and external communications • Failure to make adequate financial provision to meet liability costs • Legal agreements in 1996 - GRC/ACC 	Strategic coordination of Council response and allocation of staffing and financial resource.	Partially Effective	
		Proactive programme to identify all potential information sources.	Partially Effective	
		Proactive and planned internal and external communication campaign.	Partially Effective	
				Very serious
				Significant
Risk Owner	Gayle Gorman	Risk Manager	Bernadette Oxley	Residual Risk Assessment
Latest Note	Three Section 21 Notices have been received to date, future Section 21 Notices are unquantifiable although we have been informally advised another will be received to us in the next month, each Notice is responded to timeously.		06 Sep 2017	
				Very serious
				Almost Impossible

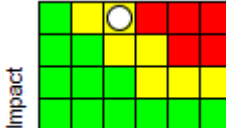
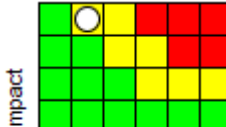
Control Actions

Action	Progress	Original Due Date	Amended Due Date
Resources	50%	18-Jul-2017	29-Sep-2017
Description	Staff resource to support Aberdeen City's response to the Scottish Child Abuse Inquiry.		
Update	The SCAI team will consist of: programme manager social worker 3 research assistants administrative support All posts are recruited on a 52 week secondment or fixed term basis and the programme manager and social worker will report to the Lead Service Manager Children's Social Work. Cross service involvement will continue; Legal, HR, records management/archivists, IJB and corporate communications and Education.		
Assigned To	Anne Donaldson		

Action	Progress	Original Due Date	Amended Due Date
Financial liability	100%	18-Jul-2017	29-Sep-2017
Description	Enter contingent liability into year end governance statement		
Update	A separate budget has been allocated to resource the response including additional staff to support a programme management approach.		
Assigned To	Brian Dow		

Action	Progress	Original Due Date	Amended Due Date
Financial liability – insurance claims - Limitation (Childhood Abuse) (Scotland)	100%	09-Aug-2017	09-Aug-2017
Description	Enter contingent liability into year end governance statement.		
Update	The Scottish Government has estimated that approximately 2200 cases could emerge as a result of the change in the law Scotland wide. Financial implication resulting from the introduction of the Limitation (Childhood Abuse) (Scotland) Act 2017 are not quantifiable at this time. Ruth Kydd, who is the liaison person with the Insurance companies has join the SCAI Group to provide advice.		
Assigned To	Brian Dow		

Action	Progress	Original Due Date	Amended Due Date
Communications	50%	18-Jul-2017	14-Sep-2017
Description	Update Admin Leaders and new council following elections		
Update	A briefing paper was circulated to Committee Members in August and a report is being presented to Education and Children's Service's Committee 14 September 2017.		
Assigned To	Gaynor Clarke; Anne Donaldson		

Code	Corp009	Risk that Bond governance arrangements are ineffective		
Definition	Ineffective governance arrangements may lead to the lowering of the Council's credit rating and / or lead to the Council, members / staff breaking the law. The financial risk attaching to the Bond is subject to a separate risk register.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<ul style="list-style-type: none"> Financial penalties. Investors may request the full repayment of their investment. The Council would have to identify other sources of funding which may be more expensive. The Council may not have ready access to finance to support its capital projects as and when required resulting in a delay to the delivery of key projects. Legal action against the Council. Reputational damage. Inability to raise additional capital through issue of further bonds Imprisonment 	<ul style="list-style-type: none"> Not maintaining accurate and comprehensive Insider Lists & associated protocol. Failure to notify the London Stock Exchange of major notifiable events. Unauthorised disclosure of inside information. Staff and members not being aware of the Council's statutory duties flowing from the credit rating and bond issue. 	Bond Governance Programme Board develops, monitors and implements a Bond Governance Action Plan	Fully Effective	 <p>Likelihood</p>
		Communications Protocol supports active consideration of information disclosure to meet regulation compliance	Partially Effective	
		ALEOs provide quarterly trading accounts in advance of quarterly reporting of group accounts to FP&R Committee	Partially Effective	
		Insider List in place with members and relevant officers aware of responsibilities and restrictions on disclosure, monitored through supervision	Partially Effective	
		Economic Policy Panel actively monitoring local and regional economic position, reporting to FP&R Committee in support of annual credit rating review	Partially Effective	
		Scheme of Governance	Partially Effective	
Risk Owner	Fraser Bell	Risk Manager	Martin Allan	Very serious
Latest Note	Assurance map and actions report have been updated to reflect lead officers and due dates detailed in the Programme Board Plan. Insider Letter issued to all Councillors and relevant members of staff. Reminders being issued. Two training sessions held. Final session planned. Additional 1:1 mop up sessions to be delivered as required.		13 Sep 2017	Low
	Economic Policy Panel - Contracts with individuals including definition of milestones/deliverables in progress.			 <p>Likelihood</p>
	Update of Comms Policy including additional clauses to narrate disclosure requirements to be considered at FP&R Committee on 20 September 2017. Updated Scheme of Governance to be reported to Council on 5 March 2018..			Very serious
				Very Low

Control Actions

Action	Progress	Original Due Date	Amended Due Date
Insider Lists and Protocol	80%	29-Jun-2017	31-Oct-2017
Description	Develop comprehensive Insider Lists with associated protocol		
Update	Linkage with Payroll and HR systems established. Draft Insider List Protocol to be reported to Programme Board 12/9/17, to CMT 28/9/17, back to Board October. Insider Letters issued - Non-respondents being pursued. Due date for this action amended to 31/10/17.		
Assigned To	Deirdre Nicolson		

Action	Progress	Original Due Date	Amended Due Date
Review of policies and contracts	25%	15-Aug-2017	31-Mar-2018
Description	Review and update: <ul style="list-style-type: none"> • Scheme of Governance; • Contracts of Employment • Employee Code of Conduct. 		
Update	<p>Scheme of Governance</p> <p>A revised Scheme is to be reported to Council on 5 March 2018.</p> <p>Staff contracts of employment</p> <p>The Permanent 'Insider List' letter has been issued to elected members and key officers with returns collated. The letter has a section on 'Duty of Confidentiality' and makes reference to the Market Abuse Regulations. Returned signed slips will be retained on file. In addition, a process will be put in place to identify any future changes to the 'Insider List' so that appropriate new employees are placed on it.</p> <p>Employee Code of Conduct</p> <p>The Employee Code of Conduct is being replaced by a Staff Governance Framework. The Framework will be significantly different and is to be compiled by the Organisational Development Section in HR, with reference to the Bond.</p>		
Assigned To	Sandra Buthlay; Martyn Orchard; Keith Tennant; Alison Watson		

Action	Progress	Original Due Date	Amended Due Date
3rd party contracts	30%	15-Aug-2017	06-Oct-2017
Description	Review and update model / standard contracts to ensure that effective arrangements are in place with the Council's advisers, contractors, agents and other third parties who have access to inside information		
Update	Officers are reviewing the templates used for 3rd party contracts. Meeting on 25 September to provide list of contracts as required.		
Assigned To	Alison Watson		

Action	Progress	Original Due Date	Amended Due Date
Review the Council's existing major contracts	10%	15-Aug-2017	06-Oct-2017
Description	Contracts to be reviewed where appropriate and feasible to ensure that effective arrangements are in place.		
Update	Officers will report on progress on the above to the Board at the next meeting in October 2017.		
Assigned To	Alison Watson		

Action	Progress	Original Due Date	Amended Due Date
Communications Protocol	75%	15-Aug-2017	20-Sep-2017
Description	Update the communications protocol in order to ensure external communications activity is governed by a framework which takes into account compliance with LSE regulations.		
Update	The revised policy has been tabled at CMT and the Governance Reference Group. A report is due at Finance, Policy and Resources Committee on 20/09/17.		
Assigned To	Paul Smith		

Action	Progress	Original Due Date	Amended Due Date
Training	75%	31-Jul-2017	17-Nov-2017
Description	Develop and deliver a training programme for all Insider List staff, elected members and ALEOs to raise awareness of the Council's statutory duties, new policies and procedures.		
Update	A number of training sessions for Members took place as part of Member induction with a final session completed on 28 August. A short video has been developed to raise staff awareness. This is available on the Zone, on induction, on monitors on meeting room doors and at establishments such as Tullos. Training sessions, aimed primarily at those on the insider list have been arranged, dates as follows - 25 July, 16 August, 18 August, 25 August, 5 September, 19 September, 27 September. Feedback is being requested after all sessions. Attendance levels will be monitored and cross referenced against the insider list with mop up sessions arranged as necessary. Arrangements are being made to train relevant ALEO members. An OIL module will be developed for ongoing sustainability and as a refresher for staff.		
Assigned To	Dorothy Morrison		

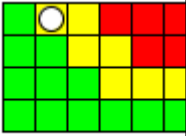
Action	Progress	Original Due Date	Amended Due Date
Legal resources	75%	30-Sep-2017	31-Oct-2017
Description	Increase resources in Legal Services Governance Team to support the delivery of a new compliance framework		
Update	Positions advertised.		
Assigned To	Jackie Buchanan		

Action	Progress	Original Due Date	Amended Due Date
Economic Policy Panel	50%	31-Dec-2017	30-Sep-2018
Description	Create an Economic Policy Panel to support the annual credit rating by: Providing an independent commentary of the state of the Aberdeen economy in the form of an annual report independent of the Council; Providing a sounding board for any emerging issues in relation to the Aberdeen and regional economies; Every six months, meet with regional stakeholders / businesses to discuss emerging issues from economic data and returns provided by officers.		
Update	Positions advertised, short list considered at full Council (23/8/2017). Contracts being drafted.		
Assigned To	Richard Sweetnam		

Assurance Actions

Action	Progress	Original Due Date	Amended Due Date
Internal Audit of Bond Programme	0%	28-Feb-2018	28-Feb-2018
Description	To provide assurance that the Bond Programme is delivering the agreed actions to establish full control effectiveness		
Update	Audit due to commence October 2017.		
Assigned To	Martin Allan		

Code	CORP011	Risk of financial loss over the decision whether to proceed with the development of an Anaerobic Digestion Plant at the new exhibition centre site		
Definition	There is risk in delaying the decision on whether to proceed with the Plant and risk in losing revenue from alternative use of the site.			
Potential Impact	Causes	Control Effectiveness		Current Risk Assessment
		Control	Control Assessment	
<p>If decision taken not to proceed with AD Plant at arena and exhibition site or alternative site</p> <ul style="list-style-type: none"> • Loss of revenue from sale of 'green' energy • Loss of sustainable energy subsidy from Government • Continuing requirement to source contractor to remove food / garden waste (currently £300k) • 'Excellent' BREEAM accreditation for AECC development not achieved • Reputational damage due to high profile capital project not delivering environmental sustainability expectations • Sustainability factor in securing planning consent not fully met • Further costs to meet EU Directive on no food waste to landfill from 2020 • Reduced income from sale of energy due to requirement to pay for natural gas as alternative to AD energy • Full Waste Strategy commitments not met • Loss of revenue if AD site not occupied for alternative use <p>If decision on Plant delayed beyond September</p> <ul style="list-style-type: none"> • Reduced Government subsidy if delay to construction of AD Plant (currently £5.35 kw/h fixed from go-live date for 5 years) • Reduced income impact on repayment of loan to deliver new AECC • Requirement for re-tendering for plant and energy centre 	<ul style="list-style-type: none"> • Delay in decision making on construction of plant • Uncertainty over energy source for the site • Poor understanding of controls to mitigate impact of AD on local community • Uncertainty over future costs of alternative energy source (natural gas) • Expected reduction in sustainable energy subsidy per kw/h from current level of £5.35 • Lower capital costs at alternative AD site not realised 	Quantified financial impacts permitting decision making to deliver maximum financial advantage to the AECC development	Fully Effective	<p>Likelihood</p>
		Quantified planning implications to AECC site are identified	Fully Effective	
				Very Low
Risk Owner	Steve Whyte	Risk Manager	Scott Ramsay	Residual Risk

				Assessment
Latest Note	A report is to be presented to FP&R Committee in September recommending that the Council proceed with the construction of the AD Plant at the Exhibition and Conference site.		28 Aug 2017	 <p style="text-align: center;">Likelihood</p> <p>Very serious</p> <p>Very Low</p>

Control Actions

Action	Progress	Original Due Date	Amended Due Date
Planning Implications	100%	31-Dec-2017	31-Dec-2017
Description	Planning Implications - HBD through their technical consultants are identifying the potential impacts associated with the AECC development. These relate to the planning conditions and building regulations. This information will quantify the impacts of removing the AD plant from the scheme and identify options and costs to meet these requirements.		
Update			
Assigned To	Scott Ramsay; Andrew Win		

Action	Progress	Original Due Date	Amended Due Date
Financial Implications	100%	31-Dec-2017	31-Dec-2017
Description	AD site financial appraisal - HBD in association with Ryden, J&E Sheppard's (Local property agents) are assessing alternative uses for the site to determine rental income streams, build costs and commercial viability). The initial feasibility work has been completed and this is being prepared for CMT.		
Update			
Assigned To	Scott Ramsay; Andrew Win		

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 September 2017
REPORT TITLE	Scottish Public Services Ombudsman and Inspector of Crematoria Complaint Decisions
REPORT NUMBER	CG/17/102
LEAD OFFICER	Fraser Bell
REPORT AUTHOR	Lucy McKenzie

1. PURPOSE OF REPORT:-

In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle.

2. RECOMMENDATION(S)

It is recommended that Committee notes the details of the report and recommends any additional actions as appropriate.

3. BACKGROUND / MAIN ISSUES

A report detailing all Scottish Public Services Ombudsman (SPSO) and/or Inspector of Crematoria decisions relating to Aberdeen City Council is submitted to Audit Risk and Scrutiny Committee each reporting cycle. This is to provide assurance that complaints and Scottish Welfare Fund decisions are being handled appropriately. The last report on this matter was submitted to the 27 June 2017 Committee.

Scottish Public Services Ombudsman (SPSO) Complaint Decisions

The Scottish Complaints Handling Procedure (CHP) has three stages:

- Stage 1 - Frontline Resolution
- Stage 2 - Formal Investigation
- Stage 3 - Independent External Review (SPSO)

The first two stages of the complaints handling process are dealt with internally by the council. The SPSO considers complaints from people who remain dissatisfied at the conclusion of the council's complaints procedure. The SPSO looks at issues such as service failures and maladministration (administrative fault), as well as the way the council has handled the complaint.

The ombudsman has the authority to make a final decision on the complaint. Following their investigation, the SPSO write to the council and the complainant with the outcome of their decision. Where necessary the SPSO will make recommendations that the council must implement to address a customer's dissatisfaction and / or to prevent the same problems that led to the complaint from happening again. The SPSO also instruct the timescales for implementing their recommendations.

Since the last reporting period, the SPSO have not made any decisions relating to Aberdeen City Council complaints referred to the Ombudsman for consideration. We are still awaiting the outcome of an SPSO decision appealed by Aberdeen City Council, which was included in the previous 27 June 2017 Committee report.

Scottish Public Services Ombudsman (SPSO) Scottish Welfare Fund Review Decisions

The Scottish Welfare Fund is delivered by Local Councils across Scotland and offers 2 types of grants – Crisis Grants and Community Care Grants. They are intended to meet one-off needs and not to meet on-going expenses. They do not have to be paid back.

If an applicant is unhappy with the council's decision regarding a grant application, they can ask for the decision to be looked at again in an internal First Tier Review. If they disagree with the 'First Tier Review' decision then they have the right to ask the SPSO for an independent 'Second Tier Review'.

During the 2017/18 financial year to date, the SPSO have carried out 2 Second Tier Reviews in relation to Aberdeen City Council Scottish Welfare Fund application decisions. The SPSO upheld the Aberdeen City Council decisions on both occasions.

Inspector of Crematoria Decisions

The Inspector of Crematoria is responsible for providing appropriate oversight and scrutiny of practices within Scotland's crematoria and is also a point of contact for families who have any concerns about crematoria practices, anywhere in Scotland.

The Inspector of Crematoria responds to complaints or queries from the public about cremations. There have been no decisions by the Inspector of Crematoria in relation to Aberdeen City Council cremations to date.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

No risks have been identified in this report.

7. IMPACT SECTION

Economy

Complaints provide rich customer insight for the organisation to act upon to help transform service delivery. The organisation should look to solve the core issue which led to the complaint and learn from the outcome of complaints so to reduce the potential for more / similar complaints. This leads to a reduction in time spent on handling and investigating repeat complaints, which can be a lengthy process for those involved.

People

The Aberdeen City Council complaints procedure can be easily accessed by all service users and by whichever means is easiest for the complainant. The outcomes of complaint decisions are fed back to the complainant and also to the relevant staff. This includes both upheld and not upheld decisions to engage staff in complaints handling and ensure they are fully informed of outcomes. Complaint information is also used to inform changes in working practices and training provision for staff to improve their experience as well as that of the customer. SPSO recommendations relating to complaints handling are fed back to the responding officers to help develop the key skills required for good complaints handling.

Place

There are no direct implications on 'Place' arising from the recommendations of this report.

Technology

There are no direct implications on 'Technology' arising from the recommendations of this report.

8. BACKGROUND PAPERS

N/A

9. APPENDICES (if applicable)

Appendix A – Complaint Details and Subsequent SPSO Recommendations
Appendix B – Scottish Welfare Fund SPSO Review Decisions

10. REPORT AUTHOR DETAILS

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Appendix A - Complaint Details and Subsequent Recommendations

Complaint Received Date	SPSO Decision Date	Complaints Investigated by the SPSO	Directorate	Decision	SPSO Recommendations	Date Implemented
4 July 2016	10 April 2017	Aberdeen City Council failed to take reasonable action in relation to the customer's complaints that the greenspace behind his home was being used by a school, contrary to the Council's Parks and Outdoor Areas Management Rules 2014.	Communities, Housing and Infrastructure	Complaint Upheld	<ol style="list-style-type: none"> 1. The council should apologise to the complainant for failing to properly consider his complaint. 2. The Council should ensure activities taking place on the greenspace are in line with the 2014 rules. 	Due 11 May 2017. (However, the council has appealed the decision. The outcome of the appeal is yet to be determined)

Appendix B – Scottish Welfare Fund SPSO Review Decisions

Crisis Grant Application Received	Application Type	Aberdeen City Council 1st Tier Review Decision Date	SPSO 2nd Tier Review Decision Date	Outcome
5 th June 2017	Crisis Grant	6 th June 2017	8 th June 2017	Aberdeen City Council decision upheld
3 rd July 2017	Crisis Grant	4 th July 2017	6 th July 2017	Aberdeen City Council decision upheld

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 September 2017
REPORT TITLE	ALEO Assurance Hub: Terms of Reference
REPORT NUMBER	CG/17/108
DIRECTOR/HOS	Fraser Bell – Head of Legal and Democratic Services
REPORT AUTHOR	Iain Robertson

1. PURPOSE OF REPORT

To seek Committee approval for the terms of reference for the ALEO Assurance Hub, to set out the ALEO Governance Framework and to provide an update on the Audit Scotland Performance Audit on ALEOs.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- (a) Approve the ALEO Assurance Hub Terms of Reference attached as **Appendix A**;
- (b) Provide feedback and note the ALEO Governance Framework attached as **Appendix B**;
- (c) Note the proposed scheduling attached as **Appendix C** and further note that the Assurance Hub would first report to the Committee's next meeting on 23 November 2017; and
- (d) Note the progress update with regards to the Audit Scotland Performance Audit on ALEOs.

3. BACKGROUND/MAIN ISSUES

ALEO Assurance Hub Terms of Reference

- 3.1 At its meeting on 27 June 2017, the Audit, Risk and Scrutiny Committee agreed to adopt the Assurance Hub model as the Council's system of oversight for ALEOs in areas of risk management, financial management and governance.
- 3.2 The Committee noted that the Assurance Hub was one strand in a wider strategy on ALEO governance which included ALEOs reporting financial

information to the Finance, Policy and Resources Committee and service performance to the relevant Council committee. The ALEOs will also receive Council support with strategic and business planning through their participation in the ALEO Strategic Partnership. These individual components form the ALEO Governance Framework.

- 3.3 The ALEOs to be included within the Hub's remit are:
- Aberdeen Heat and Power;
 - Aberdeen Performing Arts;
 - Aberdeen Sports Village;
 - Bon Accord Care;
 - Garthdee Alpine Sports; and
 - Sport Aberdeen.
- 3.4 It is proposed that the membership of the Hub would consist of officers representing Performance and Risk, Finance and Democratic Services. ALEO Service Leads would attend Hub meetings as advisers and Internal and External Audit as observers.
- 3.5 At its pre-meeting on 9 August 2017, Hub officers appointed Roderick MacBeath (Senior Democratic Services Manager) as Chairperson of the Hub for its first year of operation.
- 3.6 Consultation arrangements prior to Hub meetings have been set out in the proposed Terms of Reference. The proposals will ensure that Conveners and Vice Conveners of Audit, Risk and Scrutiny; Communities, Housing and Infrastructure; Education and Children's Services; and the Finance, Policy and Resources Committee; in addition to the Chair and Vice Chair of the Integration Joint Board will be consulted on the Hub process and proposed areas of scrutiny.
- 3.7 Under these proposals, the Hub will receive assurance from ALEOs through exception reporting and the Hub will score ALEOs based on the degree of assurance they provided and their level of risk to the Council. Thereafter the Hub will prepare an assurance report and present it to the following meeting of this Committee with a recommendation on the extent of future scrutiny for each ALEO reviewed during that cycle.
- 3.8 Timescales for reviewing the Terms of Reference have been set out in **Appendix A**.
- 3.9 Proposed roles and remits for the Finance, Policy and Resources Committee; and other Council committees; in addition to the ALEO Strategic Partnership have been outlined in **Appendix B**.
- 3.10 Legal officers within Commercial and Procurement Services are leading on the review of ALEO Service Level Agreements and this is being progressed in conjunction with the ALEO Governance Review.

Update on the Audit Scotland Performance Audit on ALEOs

- 3.11 Audit Scotland have selected Aberdeen City Council to be part of their sample on how Councils monitor the way in which ALEOs achieve Council objectives and demonstrate value for money. The Performance Audit will also review the Council's governance arrangements in relation to ALEOs as well as how ALEOs report performance to the Council.
- 3.12 Audit Scotland have advised that they are interested in the Council's use of Bon Accord Care given the recent rise of social care ALEOs as well as a wider audit of sport and culture ALEOs to enable them to monitor performance trends across Scotland. They have also outlined their intent to review the Council's rationale for establishing Aberdeen Heat and Power as they are interested in the development of ALEOs with commercial remits.
- 3.13 Audit Scotland have intimated that they would conduct on-site work between October - November 2017 which is expected to take place over one or two days. The on-site visit will include interviews with key representatives involved in the oversight of ALEOs including elected members, finance and governance officers and ALEO representatives.
- 3.14 The Performance Audit report is due to be presented to the Accounts Commission in the spring of 2018 and published later in the year.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report.
- 4.2 The role of the Hub is to ensure that good governance and scrutiny of the Council's ALEOs provides an assurance that risks, including financial ones are identified and managed. One of the Hub's primary functions is to ensure that the Council is able to follow the public pound as outlined in Accounts Commission guidance.

5. LEGAL IMPLICATIONS

- 5.1 A review of ALEO service level agreements is currently being undertaken by solicitors within Commercial and Procurement Services. The introduction of a new approach to monitoring ALEOs will be taken into consideration during this review.
- 5.2 The Hub will support the Council's governance with regards to the bonds on the London Stock Exchange in that it will identify any projects and/or initiatives that could influence investment decisions of the bond holders or the Council's credit rating and ensure that the appropriate governance is put in place.

6. MANAGEMENT OF RISK

- 6.1 **Financial Risk** – The Hub will mitigate financial risk by putting in place monitoring arrangements that assess systems of financial management, propriety of expenditure and compliance with following the public pound guidance.
- 6.2 **Employee Risk** – No significant risk.
- 6.3 **Customer/Citizen Risk** – The Hub will mitigate risk to customers and citizens by helping to ensure that risks were being managed appropriately in line with statutory requirements and industry standards to ensure ALEOs can continue to operate safely and responsibly within local communities.
- 6.4 **Environmental Risk** – No significant risk.
- 6.5 **Technological Risk** – No significant risk.
- 6.6 **Legal Risk** – The Council intends to review ALEO service level agreements to ensure they remain relevant, fit for purpose, and take account of recent legislative and regulatory change.
- 6.7 **Reputational Risk** – Whilst aspects of service delivery have been assigned to various ALEOs, the responsibility for statutory service provision remains with the Council. Discretionary services also carry an element of reputational risk through association. It is therefore important that the relationship between the Council and ALEOs is managed effectively.

7. IMPACT SECTION

Economy

Council ALEOs contribute to the local economy through employment and the provision of services. The draft terms of reference provide the Assurance Hub with the authority to scrutinise areas of corporate governance to ensure ALEOs can continue to operate effectively within the local economy.

People

No significant equalities implications have been identified. An Equality and Human Rights Impact Assessment has been completed and submitted to the Council's Equalities team.

Place

No significant implications on place have been identified.

Technology

No significant implications on technology have been identified.

8. BACKGROUND PAPERS

CG/17/073 – ALEO Operating Model, Audit, Risk and Scrutiny Committee, 27 June 2017.

9. APPENDICES

Appendix A: ALEO Assurance Hub Terms of Reference

Appendix B: ALEO Governance Framework

Appendix C: ALEO Assurance Hub Reporting Schedule

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Terms of Reference

ALEO Assurance Hub

Arms-Length External Organisations (ALEOs) are companies, charities and other bodies that are separate from the Council but subject to its control or influence.

The purpose of the Assurance Hub is to receive assurance from ALEOs that appropriate systems and policies are in place to mitigate and manage risks to the organisation and to the Council. For the avoidance of doubt, the ALEO Assurance Hub shall provide high level, strategic oversight of ALEOs but will not undertake quality checks on the operation of ALEOs.

The Assurance Hub shall promote the principles of accountability and transparency as set out in the Following the Public Pound Guidance.

The Assurance Hub is one component of the ALEO Governance Framework which will be the basis for how the Council oversees and supports its arms-length bodies. The Framework will require:-

- a. Regular performance reporting to the relevant Council committee;
 - b. Annual presentations by ALEO representatives of Annual/Business Plans to Council committees;
 - c. Regular reporting of ALEO accounts within the Council's Group Accounts to the Finance, Policy and Resources Committee; and
 - d. Quarterly meetings of the ALEO Strategic Partnership as a forum for senior Council and ALEO representatives to discuss high level strategic issues such as business planning and horizon scanning.
- 2) The membership of the Hub shall consist of:
- a. A representative from Risk Management;
 - b. A representative of the Head of Finance; and
 - c. A representative from Democratic Services.
- 3) The Hub shall appoint a Chairperson from within its membership.
- 4) The Hub's Chairperson shall serve a term of one year and will be eligible for reappointment.
- 5) ALEO Service Leads shall be invited to attend meetings as advisers to the Hub as required.
- 6) The Hub may co-opt additional advisors as required.
- 7) The Hub shall scrutinise each ALEO within its remit at least once a year.
- 8) The Hub shall have the authority to increase or reduce its oversight of ALEOs based on the level of assurance it had received.

- 9) The Hub may invite ALEO representatives to attend Hub meetings to provide information and assurance on relevant matters as requested.
- 10) The Hub shall report its level of assurance on ALEO governance and risk to the Audit, Risk and Scrutiny Committee.
- 11) The Hub shall be responsible for setting its own programme of scrutiny.
- 12) The Conveners and Vice Conveners of the following committees and Board shall be consulted on the Hub's areas of intended scrutiny prior to any Assurance Hub meeting:
 - a. Audit, Risk and Scrutiny;
 - b. Communities, Housing and Infrastructure;
 - c. Education and Children's Services;
 - d. Finance, Policy and Resources; and
 - e. Integration Joint Board;
- 13) An open invitation shall be extended to the Council's internal and external auditors to attend Hub meetings as appropriate in order for them to meet their audit objectives.
- 14) To ensure that risk posed to the Council by ALEO operations is monitored, the Hub shall oversee ALEOs risk management arrangements including:
 - a. Risk management policy;
 - b. Management of risk registers; and
 - c. Risk identification structures, including horizon-scanning.
- 15) To ensure compliance with Following the Public Pound guidance, the Hub shall oversee ALEOs:
 - a. Financial governance;
 - b. Financial management;
 - c. Accounting practices; and
 - d. Financial performance.
- 16) The Hub shall review ALEO decision making structures including:
 - a. Reporting arrangements;
 - b. Compliance with key governance standards, such as codes of conduct; and
 - c. The composition and capacity of the board.
- 17) The Hub shall receive assurance on ALEOs risk management, financial management and governance arrangements through exception reporting and officers will assess ALEO governance and management of risk through a scoring matrix.
- 18) The Hub may monitor high level employment practices.
- 19) The Hub shall receive internal and external audit reports on ALEO governance; and monitor best practice guidance from organisations such as Audit Scotland and the Standards Commission for Scotland on the development of guidance relating to ALEOs.
- 20) The Hub shall monitor co-ordination arrangements between ALEO partners where the Council is not the sole shareholder.

21) The following organisations have been deemed to be ALEOs and will be subject to the Hub's oversight arrangements:

- a. Aberdeen Heat and Power;
- b. Aberdeen Performing Arts;
- c. Aberdeen Sports Village;
- d. Bon Accord Care;
- e. Garthdee Alpine Sports; and
- f. Sport Aberdeen.

22) The Head of Legal and Democratic Services will review these Terms of Reference annually to ensure their ongoing appropriateness in monitoring ALEO governance.

Role and Remit of Finance Policy and Resources Committee with regards to ALEO governance

- 1) To review the Council's group accounts which may include ALEO accounts to ensure compliance with governance requirements related to the bond issue.
- 2) To ensure the Council continues to comply with the Following the Public Pound guidance.
- 3) To provide oversight of the S95 Officer's statutory responsibilities relating to the Council's ALEOs.
- 4) The Lead Officer in relation to group accounts shall be the Council's Head of Finance.

Role and Remit of Council Committees with regards to ALEO governance

- 1) References to Council committees within this section do not include the Audit, Risk and Scrutiny Committee or the Finance, Policy and Resources Committee as reporting arrangements to these committees have been set out in previous sections.
- 2) The role and remit of the Council committee shall determine where each ALEO will be held to account.
- 3) Council committees shall monitor the functions of the ALEOs and keep under review its membership of wider partnerships and establishment of subsidiaries.
- 4) Council committees shall receive information on service performance from ALEOs within its remit, the requirements of which shall be set out in Service Level Agreements.
- 5) Council committees shall keep under review ALEO improvements in service delivery and customer satisfaction, the requirements of which shall be set out in Service Level Agreements.
- 6) Council committees shall receive ALEO Annual/Business Plans on an annual basis and ALEO representatives shall be invited to attend this meeting to answer member's questions on strategies, policies, performance and future plans. The requirements of which shall be set out in Service Level Agreements.
- 7) Council committees shall monitor the Council's budget allocations to ALEOs to ensure alignment with planned expenditure.

- 8) Council committees shall receive options appraisals; business plans and other key documentation in order to support decision making on the establishment of new ALEOs.
- 9) Council committees shall keep under review whether ALEOs remain the best option for service delivery and represent best value in delivering against the relevant Council priorities and objectives.
- 10) Council committees shall review contractual compliance in terms of ALEO service delivery and performance against requirements set out in Service Level Agreements.
- 11) Council committees shall approve any amendments to Service Level Agreements including setting clear limits of Council involvement and trigger points in the event of unsatisfactory performance or contractual non-compliance.
- 12) Council committees shall be responsible for developing and reviewing contingency plans in the event of a significant change in circumstances relating to the operation or governance of an ALEO.
- 13) The Council has designated a number of senior officers to serve as ALEO Service Leads. These officers shall be accountable to the relevant committee and attend meetings to provide information and assurance to elected members on ALEO performance.
- 14) Service Leads and other appropriate Council officers shall receive management trading accounts on a regular basis from ALEOs in order to support the Council's ability to follow the public pound. The requirements of which shall be set out in Service Level Agreements.
- 15) Council committees shall provide oversight of the monitoring arrangements put in place between the Service Lead and the ALEO.

Role and Remit of the ALEO Strategic Partnership with regards to ALEO governance

- 1) The ALEO Strategic Partnership shall be a support body to provide a forum for engagement; and to foster good relationships between the Council and its ALEOs.
- 2) The Partnership shall be a forum for ALEO representatives to raise issues with senior Council officers and to discuss strategic planning, business planning; horizon scanning and training.
- 3) The Partnership shall provide a forum to provide clarity about roles and responsibilities in relation to ALEO governance.
- 4) The Partnership shall not undertake scrutiny of ALEO governance or performance.

- 5) The Partnership shall meet on a quarterly basis.
- 6) The Partnership's membership shall consist of senior officers from the ALEOs and the Council, including ALEO Service Leads.
- 7) Council officers supporting the ALEO Strategic Partnership shall not also be Hub officers to ensure the independent oversight of ALEOs.
- 8) The Lead Officer shall be the Head of Commercial and Procurement Services.

APPENDIX C

Workstream	Milestone	Lead Officer	Timescale
ALEO Assurance Hub	Approval of revised operating model at Audit, Risk and Scrutiny Committee	Iain Robertson	27 June 2017
Audit Scotland Performance Audit	Initiation of audit with Audit Scotland	Iain Robertson	12 July 2017
ALEO Assurance Hub	Terms of Reference presented to Audit, Risk and Scrutiny Committee for approval	Iain Robertson	26 September 2017
ALEO Assurance Hub	ALEO Assurance Hub pre-meeting consultation with Conveners and Vice Conveners	Iain Robertson	3 October 2017
Audit Scotland Performance Audit	Audit Scotland on-site visit to conduct the Performance Audit on ALEOs	Iain Robertson	31 October – 1 November 2017
ALEO Assurance Hub	ALEO Assurance Hub meeting	Iain Robertson	1 November 2017
ALEO Assurance Hub	Assurance Hub reports to the Audit, Risk and Scrutiny Committee	Iain Robertson	23 November 2017
ALEO Assurance Hub	ALEO Assurance Hub meeting	Iain Robertson	18 January 2018

ALEO Assurance Hub	Assurance Hub reports to the Audit, Risk and Scrutiny Committee	Iain Robertson	22 February 2018
Audit Scotland Performance Audit	Audit Scotland Performance Audit report due to be presented to the Accounts Commission	Iain Robertson	Spring 2018
Audit Scotland Performance Audit	Audit Scotland Performance Audit report on ALEOs expected to be published	Iain Robertson	Mid-Late 2018
ALEO Assurance Hub	The ALEO Governance Framework to be reviewed by the Head of Legal and Democratic Services	Iain Robertson	September 2018

COMMITTEE	Audit, Scrutiny and Risk
DATE	26 September 2017
REPORT TITLE	Whistleblowing Policy
REPORT NUMBER	CG/17/110
HEAD OF SERVICE	Morven Spalding
REPORT AUTHOR	David Forman

1. PURPOSE OF REPORT:-

1.1 The purpose of this report is to provide Committee with details on the implementation, communication and monitoring of the Whistleblowing policy, following a request at the last Audit, Scrutiny and Risk Committee of 27 June 2017.

2. RECOMMENDATION(S)

2.1 It is recommended that Committee notes the details on implementation, communication and monitoring of the Whistleblowing policy.

3. BACKGROUND/MAIN ISSUES

3.1 Background

At Audit, Scrutiny and Risk Committee on 27th June 2017, officers were requested, in response to the findings of the Audit, Risk and Scrutiny Committee - Annual Report - OCE/17/007, to complete a report providing an update on the Whistleblowing Policy specifically, how it is implemented, communicated and monitored throughout the organisation.

3.2 Implementation and Communication of the Whistleblowing policy

The Whistleblowing policy is an HR related policy and is included in the suite of HR policies published on the Zone. As part of the HR policy design and review process, following committee approval for a new or revised policy, the HR officer responsible for it ensures that the policy document is uploaded to the intranet replacing the existing version and arranges for a briefing on the new or revised policy to HR Service Centre so that any queries lodged by managers or employees can be responded to. The HR officer prepares a communication outlining the new or revised policy for the Web Monitor to

place on the Zone under 'Internal News', and an e-mail is sent to the 'Communications Champions' for cascading to managers and employees within each directorate to raise awareness throughout the organisation. A link to the policy document and a summary of changes sheet is included in both. Details of HR policy developments/reviews are also communicated on the 'Your HR' system, and employee briefings are undertaken as appropriate. This is what occurred on the last occasion the Whistleblowing policy was reviewed in July 2016 when some specific changes were made to the document, with employees' team briefed at that time. Any future reviews of the policy would go through a similar process.

3.3 Monitoring of the Whistleblowing policy

The Monitoring Officer in the Council is the Head of Legal and Democratic Services whose role in relation to the Council's Whistleblowing policy is summarised as follows:-

- Where the manager receiving the complaint considers it is one of whistleblowing the Monitoring Officer is informed through completion of a standard form.
- On receipt of the form the Monitoring Officer checks whether it relates to the acts or issues which qualify for protection as detailed in the policy.
- The Monitoring Officer then acknowledges the individual's concern in writing and confirms whether protection applies under the policy.
- Where the matter falls under the policy, the Monitoring Officer then identifies and appoints an investigating officer to look into the concern and notifies the individual of whom this will be. The Monitoring Officer discusses and agrees the scope of the investigation with the investigating officer.
- The investigating officer undertakes the investigation and on its conclusion compiles a written report for the Monitoring Officer.
- The final decision on the outcome of the investigation lies with the Monitoring Officer, in discussion with the investigating officer.
- Once the outcome is decided on, the Monitoring Officer will meet with the individual to explain the outcome and the reasons for the decision. In most circumstances, the Monitoring Officer should release the full report to the individual who raised the concern.
- Following the outcome, the Monitoring Officer writes to the relevant Head of Service to communicate any action points arising from the whistleblowing concern with these to be implemented within the timescale set by the Monitoring Officer.
- The Monitoring Officer is also responsible for reporting the number and progress of all whistleblowing concerns to each meeting of the appropriate Committee.

- 3.4** In relation to the last bullet point above, monitoring is undertaken of the number and progress of cases addressed through the policy, with the Monitoring Officer also having a general role to feedback to HR on the effectiveness of the policy/procedure, as appropriate. The HR Service aims to review its policies/procedures on a three year rolling basis and any feedback received on the operation of a policy/procedure would be taken into account as part of that. A review can be brought forward where the need arises. The use of focus groups, benchmarking with other organisations and consultation with the trade unions and other stakeholders comprises part of the policy/procedure development and review process. Any legislative changes would also be taken into account, with the Public Interest Disclosure Act 1998 (as amended by the Enterprise and Regulatory Reform Act 2013) being the relevant pieces of current legislation relating to Whistleblowing.

4. FINANCIAL IMPLICATIONS

- 4.1** There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1** There are no direct legal implications arising from the recommendations of this report.

6. RISK MANAGEMENT

6.1 Financial

Financial risk has been considered and there is no risk identified.

6.2 Employee

Employee risk has been considered and there is no risk identified.

6.3 Customer / citizen

Customer risk has been considered and there is no risk identified.

6.4 Environmental

Environmental risk has been considered and there is no risk identified.

6.5 Technological

Technological risk has been considered and there is no risk identified.

6.6 Legal

Legal risk has been considered and there is no risk identified.

6.7 Reputational

Reputational risk has been considered and there is no risk identified.

7. IMPACT SECTION

7.1 Economy

There are no identified economic impacts associated with this report.

7.2 People

There are no identified People impacts associated with this report.

7.3 Place

There are no identified Place impacts associated with this report.

7.4 Technology

There are no identified Technology impacts associated with this report.

8. BACKGROUND PAPERS

8.1 No background papers were consulted in the preparation of this report.

9. APPENDICES (if applicable)

9.1 There are no appendices associated with this report.

10. REPORT AUTHOR DETAILS

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HEAD OF SERVICE DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1802 – Building Maintenance Year End Stock Checks
REPORT NUMBER	IA/AC1802
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Building Maintenance Year End Stock Checks.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Building Maintenance Year End Stock Checks.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1802 – Building Maintenance Year End Stock Checks.

9. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Communities, Housing and Infrastructure

Building Maintenance

Year End Stock Take

Issued to:

Bernadette Marjoram, Interim Director of Communities, Housing and Infrastructure
Fraser Bell, Head of Legal and Democratic Services
John Quinn, Head of Land & Property Assets
Steven Whyte, Head of Finance
Kenny Don, Contract Manager
External Audit

EXECUTIVE SUMMARY

The Council's Building Maintenance Service is responsible for the repair and maintenance of Council Houses and Council Operational Buildings with works completed by in-house craft workers. The Service currently holds a stock of materials at 3 Depots (Kittybrewster, Hilton, and Kincorth) and within craft worker vans. There are approximately 1,800 different product lines held in stock at Kittybrewster while the other depots hold approximately 400 to 500 product lines each.

The objective of this audit was to provide assurance over the accuracy of the 2016/17 year end stock taking process and to review the stock procedures.

In general, the year end stock take controls were found to be robust and well managed. Areas identified for improvement included written procedures, control of stock count sheets, stock requisition scanning equipment, identification of counted stock, random stock take procedures and records, investigation and authorisation of write offs and stock take adjustments, and stock system average cost prices.

1. INTRODUCTION

1.1 The Council's Building Maintenance Service is responsible for the repair and maintenance of Council Houses and Council Operational Buildings. Works are completed by in-house craft workers (joiners, electricians, plumbers, painters, plasterers and masons). The Building Maintenance Service currently holds a stock of materials at 3 Depots (Kittybrewster, Hilton, and Kincorth) and within craft worker vans. There are approximately 1,800 different product lines held in stock at Kittybrewster while Hilton and Kincorth both hold approximately 400 to 500 product lines each. Seaton Depot was previously used for storing kitchen and bathroom stock required for the Scottish Quality Housing Standards upgrade of Council Houses. This Depot has since closed with stock and staff being relocated to the Kittybrewster Depot.

1.2 As at the 31 March 2017, stock to the value of £587,223 was held. A breakdown of stock valuations by location over the past three years is shown below.

	31 March 2017	31 March 2016	31 March 2015
	£	£	£
Kittybrewster Depot	399,133	394,545	331,818
Vans	88,236	50,446	79,485
Hilton Depot	62,889	66,955	66,772
Kincorth Depot	35,046	38,103	31,372
Seaton Depot	1,919	60,247	22,259
Total	587,223	610,296	531,706

1.3 The objective of this audit was to provide assurance over the accuracy of the 2016/17 year end stock taking process and to review the stock procedures.

1.4 The year-end stock take was completed on 24 March 2017. Kittybrewster Depot was visited on 31 March 2017 and a sample of stock items was selected and counted to determine accuracy. Procedures, stock count sheets and other relevant documentation was also reviewed.

1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Quinn, Head of Land and Property Assets and Kenny Don, Contract Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Comprehensive written procedures and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 In order to ensure that there is an accurate value for stock reflected in the Annual Accounts, the Service counts and values the stock at the year end. Written procedures cover all aspects of the year end stock taking process. These are provided by email to all staff involved in the count to ensure all concerned are aware of their roles and responsibilities. Procedures were reviewed and found to be comprehensive.
- 2.1.3 The Annual Accounts 2016/17 – Year End Procedures required Services to submit signed stock certificates to their Service Accounting contact by Monday 10 April 2017. However, these Procedures do not include an example stock certificate or explain what it consists of. It is therefore unclear what is expected of the responsible officers and there is a small risk that required information may not be provided. Finance receive stock valuation information required from the Service electronically, with signed stock count sheets being held by the Service.

Recommendation

The Annual Accounts Year End Procedures should be updated to reflect current practice and to include an example of what is required to be submitted to Finance.

Service Response / Action

Agreed.

Implementation Date

September 2017

Responsible Officer

Accounting Manager

Grading

Important within audited area.

- 2.1.4 In addition to the Annual Accounts Year End Procedures, Annual Stock Count procedures are issued by Finance to Officers in Charge of the stock counts. A declaration is included at the end of the Annual Stock Count procedures for Officers in Charge of counts to sign, date and return to Finance. This confirms the procedures have been received, read and understood prior to the stock count taking place. The signed forms have been requested from Finance and the Contract Manager but were not held.
- 2.1.5 As per the Annual Stock Count procedures, the personnel appointed to carry out the count at each location should be recorded on a Personnel Fact Sheet. This details count location / stock type; Officer in Charge and personnel taking stock. The Personnel Fact Sheet has been completed and the Kittybrewster Depot count included three Finance personnel independent of the day-to-day responsibility for stock being counted. The Contract Manager and Assistant Manager were present in an advisory capacity only as permitted by the Annual Stock Count procedures.
- 2.1.6 The Officer in Charge of the count is responsible for completing a Main Fact Sheet – Annual Stock Count form, detailing the location, time and dates of counts; the nature of stocks; the local officer in charge and their contact details. This should be returned to the Finance Partner before the counts take place, so the information can be made available to internal and external audit. A copy of the main fact sheets has been requested from the Service and Finance however this was not held.

- 2.1.7 The Annual Stock Count procedures state it is the responsibility of the stock count supervisor to ensure all count sheets issued to counters are returned at the end of the count. It is therefore recommended all stock sheets are pre-numbered and a log is maintained of issue and return, signed off by the count supervisor and retained for subsequent inspection. Stock count sheets had system generated batch numbers which could act as unique identifiers however a log of stock count sheets issued and returned was not maintained.

Recommendation

Confirmation of receipt of stocktaking instructions forms should be completed and submitted by Officers in Charge of counts, prior to the stock count taking place.

A Main Fact Sheet – Annual Stock Count form should be completed by Officers in Charge of stock counts and submitted to Finance prior to the counts taking place.

A log of stock count sheets issued and returned should be maintained for the year end stock take.

Service Response / Action

Agreed. This will be actioned prior to the next stocktake.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.2 Depot Count

- 2.2.1 Internal Audit staff visited Kittybrewster Depot on 31 March 2017 to carry out a stock take on a sample of stock items and compare the results to the stock system, which had been updated to reflect the year end stock count the week before. Security arrangements were observed to be satisfactory, with authorised staff gaining access to the Depot using security key cards. In addition, high value mobile stock, e.g. showers, was stored in a cage locked by padlock under view of CCTV. It was confirmed no third party stocks were held at the Depot.
- 2.2.2 A report was provided to Internal Audit from the stock system showing all stock product lines held on site, without stock levels. A sample of 20 different stock items was selected from the stock report and a further 20 different stock items were selected from the shelves. These items were counted and then compared to the stock balances per the system. Since there were discrepancies a further 16 items were counted (8 from sheet to shelf and 8 from shelf to sheet). Counts were undertaken again where differences existed in order to confirm the differences found.
- 2.2.3 The physical count matched the stock system for 41 of the 56 stock items counted. It was established that 6 discrepancies were due to requisitions which were waiting to be processed, whilst a further 3 were due to estimations used for part used materials, resulting in minor differences. Six differences were unexplained.
- 2.2.4 The Service have advised that 4 of the stock items with stock count differences have since been recounted and the count agrees to the stock system. There was no movement on 2 of these items on 31 March 2017 when Internal Audit visited. The Service has been unable to ascertain the reason for differences between the stock count and count per the stock system but has suggested this could include requisitions not having been processed or stock not being located in the correct location.

Recommendation

Staff should be reminded to take care to keep stock in the correct location according to stock code.

Service Response / Action

Agreed. Staff will be reminded.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Important within audited area.

2.2.5

The remaining 2 stock count differences could not be explained, with suggested reasons provided by the Service including stock may be wrongly located, or handheld devices for scanning stock, to record requisitions on the stock system, may have failed due to wireless connection problems in the Depot.

Recommendation

Failure of handheld scanning devices to record stock movements on the stock system should be referred to the supplier and ICT in order that this can be investigated and rectified.

Service Response / Action

Agreed. The Service will liaise with the systems team to resolve connectivity issues.

Implementation Date

April 2018

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.2.6

Completed stock count sheets were tested for the Depots. System generated, pre-numbered stock balance enquiry report sheets were used by count personnel to record quantities and the stock balance column of the report was blank to ensure a "blind" count. Count sheets for the Depots were all signed as required by the Annual Stock Count procedures.

2.2.7

The Annual Stock Count procedures require stocks already counted to be marked as such. This is to ensure that all stock is counted and that any obsolete items are identified. Stock counters and recorders should have coloured stickers or some other suitable means of marking stock that has been counted. On walking through the Kittybrewster Depot, it was noted that many items had not been marked as counted.

Recommendation

Stock already counted should be marked as such with a coloured sticker.

Service Response / Action

Agreed. Colour stickers will be used at future stocktakes.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Important within audited area.

2.2.8

A breakdown of the differences between the stock count and stock system over the last three counts is shown below. Vans were excluded as this data was unavailable.

	31 Mar 2017		30 Sep 2016		31 Mar 2016	
	Net (£)	Gross (£)	Net (£)	Gross (£)	Net (£)	Gross (£)
Kittybrewster	523	16,613	1,149	15,832	7,015	85,733
Hilton	89	137	169	187	(442)	2,255
Kincorth	(29)	371	160	329	21	868
Seaton	-	-	45	1,309	(3,107)	9,063
	583	17,121	1,523	17,657	3,487	97,919

The gross variance has decreased by 17.5% of the year end stock balance at 31 March 2016 to 3.4% of the year end stock balance at 31 March 2017. The Contract Manager advised that due to the high instance of gross errors at the 31 March 2016 count, staff were brought in on the Saturday following interim and year end counts to recount stock with variances. This double checking of count variances has resulted in more accurate counts and a reduction in count variances as at 31 March 2017.

2.3 Van Counts

- 2.3.1 In addition to the stock held in the Depots, stock is held in craft workers' vans. As per the Building Services Valuation Summary, the value of the stock held in the vans on 31 March 2017 totalled £88,236. Stock count sheets for a sample of 5 out of 74 vans were reviewed. The Annual Stock Count procedures require all finalised stock count sheets to be signed and dated by the stock counter and recorder on the day the stock was counted. The count supervisor is then required to sign the stock sheets to evidence that they have been examined for clarity. This did not happen for the sampled vans.

Recommendation

Stock supervisors should ensure stock count sheets are signed as required by Annual Stock Count procedures.

Service Response / Action

Agreed. Checks will be introduced to ensure stock sheets are properly signed off.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.4 Interim and Random Stock Takes

- 2.4.1 The Service advised that an interim stock take is carried out in September each year. All stock items in each of the Depots are checked (one per week). The Service also advised that random stock checks are carried out on a regular basis. The Service aims to count all stock randomly at least twice between interim and year end stock counts.
- 2.4.2 The Contract Manager advised the year end procedure is used for interim stock takes as the same process is followed. A procedure was not available for random stock takes. The process followed during random stock takes differs from interim stock takes in that the count is specific to particular items and count sheets were not observed to be used. A central record of stock checked and stock still to be checked is not maintained either. Lack of a random stock take procedure and record of counts due to be undertaken increases the risk that stock balances will be misstated due to counts being undertaken incorrectly or failing to be undertaken when required.
- 2.4.3 A staff list was not available for the interim stock count however the Contract Manager advised the same staff that undertook the 2016/17 year end stock takes undertook the

September 2016 interim stock takes. Staff lists should be prepared for interim stock counts to ensure all staff involved understand what is required and the health and safety of staff involved in the process is considered and addressed i.e. all staff issued procedures and required safety equipment.

Recommendation

Random stock count procedures should be prepared.

A record should be maintained of random stock counts undertaken and counts outstanding.

Staff lists should be prepared for all counts undertaken.

Service Response / Action

Agreed. The Service will introduce a structured schedule of weekly stock balance checks.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.4.4 Count sheets were in place for a sample of 5 randomly selected stock items for Kittybrewster Depot, all stock items at Kincorth and Hilton Depots, and a randomly selected van. The sheets were each signed by 2 members of staff. All were dated with the exception of 1. It was noted a third signature was absent from all count sheets indicating either the counter, recorder or supervisor did not sign and date the count sheets as required by the procedure.

2.4.5 A list of random stock takes undertaken was provided and a random sample of 3 counts was selected and count documentation requested. Excel spreadsheets were provided showing the count results as compared to the original system stock balances. Signed count sheets were unavailable. In the absence of signed count sheets there is a higher risk of error since it cannot be demonstrated that there was segregation of duties between counting, recording and supervising the count.

Recommendation

Random stock count sheets should be signed and dated by counters, recorders and count supervisors.

Service Response / Action

Agreed. The Service will ensure that count sheets are signed and retained for future checks.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Important within audited area.

2.5 Stock Adjustments / Write Offs

2.5.1 Following the stock counts, any variances noted are recounted the day following the count and variances are calculated in a spreadsheet. The Contract Manager stated variances exceeding 5% are investigated prior to approval by the Contract Manager. Once the count values have been verified, the final count figures are authorised and entered into the stock system by the Contract Manager. Signed recount sheets and the excel variance reports were provided to Internal Audit. A sample of 5 count variances exceeding 5% was selected and evidence of investigation into the reasons was requested from the Contract

Manager. Adequate reasons were provided for 4 of the 5 stock items. The unexplained difference was assumed by the Contract Manager to be due to a previous count being incorrect. Despite reasons being provided, evidence of investigation of stock count variances and authorisation of stock count adjustments is not maintained.

2.5.2 Obsolete or damaged stock should be held separately, written off and disposal plans made. Any stock which is required to be written off must be authorised by a senior member of staff prior to write-off. At the time of the count a shower was identified as being damaged. This was held within the office behind the Category Manager’s desk awaiting collection from the manufacturer. If stock is damaged, a remedial job number is requested by the Contract Manager to charge the write off to, unless the stock is being replaced by the manufacturer. The costing team then consider the request and provide a remedial job number, if appropriate. The damaged stock is then charged to the remedial job number in the stock system.

2.5.3 A list of stock returned to manufacturer or written off since 1 April 2016 was requested from the Contract Manager and the Finance Development Officer, to determine if authorisation was obtained for a sample of write offs. The Contract Manager advised there is no formal process for documenting the investigation and authorisation of write offs and stock count adjustments. A draft form was prepared during the course of the audit as a result, which documents the officer requesting approval for write off, position, date, item description, stock details, reason for disposal and method of disposal. A flow chart has also been prepared detailing the process to be followed and necessary authorisation. An equivalent form and process should be put in place to evidence investigation and authorisation of material stock count adjustments as a result of stock counts i.e. 5% as prescribed by the Corporate Governance Annual Stock Count procedure. A recommendation is included for tracking purposes.

Recommendation

The process for investigating and authorising write offs and stock take adjustments should be formalised.

A form for documenting investigations and authorisation of stock write offs and stock count adjustments should be prepared and made available to those concerned.

Service Response / Action

Agreed. A write-off procedure is now in place, and a stock adjustment procedure will be implemented.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.6 Stock Valuation

2.6.1 The Annual Accounts 2016/17 – Year End Procedures state stock should be valued at the lower of cost or net realisable value. Cost is calculated using a weighted average cost, in line with the Code of Practice on Local Authority Accounting in the UK 2016/17. Stock is written off where required as detailed in paragraph 2.5.2, above, which should ensure the stock valuation is not overstated.

2.6.2 The Contract Manager explained that when an invoice is paid in the stock system, the price to be paid is compared to the average price held in the system. This ensures variances are monitored on an on-going basis facilitating investigation of material movements in price. A report of current to average price variances was requested to determine the number of variances exceeding 10%. The purchase price exceeded cost

price per unit by more than 10% for 119 of 1,319 different stock items delivered between 1 April 2016 and 6 June 2017. A sample of 5 variances was selected to establish the reason for variances. Reasonable explanations were provided in 3 cases for the difference. In 2 of the 5 cases the average price was incorrect. Incorrect average prices in the stock system increase the risk the stock balance is misstated in the Council's Annual Accounts.

Recommendation

Variances between stock average cost price and unit of issue cost price exceeding 10% should be investigated.

Service Response / Action

Agreed. The Service will develop a process for investigating variances over 10% on a regular basis.

Implementation Date

September 2017

Responsible Officer

Contract Manager

Grading

Significant within audited area.

2.6.3 The Service has provided detailed system stock reports to Finance showing quantity and valuation of stock by location for the Annual Accounts.

2.7 Reconciliation

2.7.1 A reconciliation of the ledger to the stock system is not undertaken. This is because the stock value in the balance sheet does not change in the ledger throughout the year with stock transactions only recorded in the stock system and the revenue ledger. Once the stock counts have taken place and adjustments recorded in the stock system, Finance adjust the ledger stock balance to agree to the stock system balance as at 31 March 2017. A reconciliation is therefore not required.

AUDITORS: D Hughes
A Johnston
A Mitchell

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1723 – Housing Benefit and Council Tax Reduction
REPORT NUMBER	IA/AC1723
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Housing Benefit and Council Tax Reduction.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Housing Benefit and Council Tax Reduction.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1723 – Housing Benefit and Council Tax Reduction.

9. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Finance

Housing Benefit and Council Tax Reduction

Issued to:

Steven Whyte, Head of Finance
Fraser Bell, Head of Legal and Democratic Services
Wayne Connell, Revenue & Benefits Manager
Helen Moir, Benefit Processing Manager
External Audit

EXECUTIVE SUMMARY

In order to assist with the cost of Rent and Council Tax, individuals can claim Housing Benefit (HB) or apply for Council Tax Reduction (CTR). Both are means tested and are governed by various pieces of legislation. During 2016/17, the Council made payments totalling £58.1 million in respect of HB whilst Council Tax Reductions totalled £9.1 million. Most of the cost to Local Authorities of paying HB is recovered from the Department for Work and Pensions whilst the costs of CTR are funded through the Revenue Support Grant.

The objective of the audit was to consider whether entitlement being paid are supported by appropriate documentary evidence, that the calculations are accurate, and that Housing Benefit has been properly recorded for subsidy purposes. Based on the testing undertaken, this was generally found to be the case.

1. INTRODUCTION

- 1.1 Housing Benefit (HB) is a means tested social security benefit intended to help meet housing costs for rented accommodation. The primary legislation which sets out the general entitlement to Housing Benefit is the Social Security Contributions and Benefits Act 1992. The Housing Benefit Regulations 2006; Housing Benefit (Persons who have attained the qualifying age for state pension credit) Regulations 2006, and subsequent amendments describe entitlement further.
- 1.2 Local authorities reclaim most of the Housing Benefit they have paid to claimants from the Department for Works and Pensions (DWP) by submitting subsidy claims certified by each authority's appointed external auditor. Benefit subsidy is restricted where local authorities are deemed to have most scope to monitor and control costs. For example, eligible overpayments attract a reduced subsidy rate of 40% to encourage local authorities to minimise and recover overpaid benefits. Should the Council recover the full overpayment, the DWP Housing Benefit overpayments guidance states the Council can retain the subsidy paid, and any overpayment recovered. In 2016/17, the Council made payments of £58.1 million for Housing Benefit and a subsidy claim for £57.3 million was submitted to the DWP representing 98.6% of the expenditure.
- 1.3 Council Tax Reduction (CTR) is means tested and intended to help meet the cost of Council Tax. CTR replaced Council Tax Benefit from April 2013 and the legislative responsibility passed from the Department for Work and Pensions to the Scottish Government. CTR is governed by the Council Tax Reduction (Scotland) Regulations 2012, the Council Tax Reduction (Pension Credit) (Scotland) Regulations 2012, and subsequent amendment regulations which are issued on an annual basis. CTR does not apply to charges for water or waste water even though these are billed along with Council Tax.
- 1.4 Each Local Authority receives funding for the CTR scheme as part of the Revenue Support Grant. This funding is not ring fenced and is not dependent on the CTR awarded. Should CTR awarded exceed funding received then any shortfall has to be met by the local authority. However, £9.1 million of expenditure was incurred in 2016/17 compared to £9.3 million of funding which was received for 2016/17 (102.2% of expenditure).
- 1.5 Currently, the Council has a caseload of approximately 10,400 Rent Rebate, 3,900 Rent Allowance cases and 13,800 households whose Council Tax was reduced as a result of the Council Tax Reduction Scheme.
- 1.6 HB and CTR claims / applications and supporting documentation are scanned and held within the Civica Electronic Document Management system which allows for the workloads to be allocated across the Team. The claims / applications are processed through the Academy system, calculating any entitlement based on the claimant's / applicant's income and personal circumstances.
- 1.7 The objective of the audit was to consider whether entitlement being paid are supported by appropriate documentary evidence, that the calculations are accurate, and that Housing Benefit has been properly recorded for subsidy purposes.
- 1.8 The factual accuracy of this report has been agreed with Wayne Connell, Revenue & Benefits Manager and Helen Moir, Benefit Processing Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 HB / Council Tax Reduction Scheme

- 2.1.1 Claimants / Applicants may claim / apply directly to the Council for Housing Benefit and or Council Tax Reduction by using an online form (which currently has to be printed and sent) or by submitting a paper form to the Revenues and Benefits Office at Marischal College; Tillydrone Housing Office or Mastrick Customer Access Point. They may also submit a claim through Job Centre Plus for Housing Benefit.
- 2.1.2 When claims / applications are received they are scanned onto the Civica Electronic Document Management system and are then distributed to the Benefits Team for verification of the claimant's / applicant's information which is input to the Academy System for assessment of entitlement. Once assessed, a letter is issued to the claimant / applicant advising of the amounts awarded.
- 2.1.3 Where the claimant is a Council housing tenant, Housing Benefit will be interfaced directly to their rent account on the I-World Housing System on a weekly basis. Tenants of Housing Associations, Registered Social Landlords or private sector landlords, receive payments via BACS, although cheque payments are available.
- 2.1.4 Where an application for Council Tax Reduction (CTR) is made, any award is interfaced from the Benefits System to the Council Tax System and the customer will be rebilled automatically, unless a manual suppression is placed on their Council Tax account.

2.2 New Claims

- 2.2.1 A review of 10 new claims for benefit was undertaken (5 rent allowance and 5 rent rebates). This involved checking the details held on the Academy Benefits system and the details held on the Civica Document Management System, to ensure the required information for the claimant's calculation of benefit was present, the start date was correct, the claim was processed correctly / timeously, the award of benefit had been calculated correctly and properly recorded for the purposes of subsidy. All testing, calculations and subsidy classifications were satisfactory.
- 2.2.2 There were a small number of instances where the HB / CTR form was not completed with the date the form was issued, the claimant's / applicant's name and address or reference number, or not dated when received. In addition, one of the changes in circumstance sampled cases did not have the claimant's address, name, issue date or the received date noted on the form.
- 2.2.3 The Service has explained that this information is only recorded on the claim form / application if it is issued from a Council designated office i.e. Marischal College, Mastrick Customer Access Point or Tillydrone Access Point. Claim forms / applications are readily available from other agencies e.g. Housing Associations, as well as the Council's website, and may, therefore, be received without an issue date, name and address or reference number.
- 2.2.4 Claim forms / applications posted to Marischal College will be manually stamped with the date received, by staff processing the mail. Those submitted in person at designated offices are scanned and an electronic receipt date is recorded in the Benefits System. This electronic date stamp will be the received date. The name and address will be updated in the Benefits System and any other information required to process the claim / application. The paper form is not updated as this would be duplication of effort.

2.3 Change of Circumstances

- 2.3.1 Changes of circumstances can result from changes to the claimant's / applicant's income, household composition, or changes in legislation. Notifications may be directly from the claimant / applicant or other government agencies. It is mandatory for the claimant / applicant to ensure timeous notification be given to the Benefits Team to ensure entitlement is accurate.
- 2.3.2 10 change of circumstance (6 rent rebates and 4 rent allowances) were selected for testing from Academy. Using information from Civica EDMS the entitlement was recalculated for the sample to ensure accuracy. All changes were found to be correctly applied and entitlement correctly calculated.
- 2.3.3 Diary events put into Academy allow the system to highlight important dates which are likely to affect entitlement. The Academy system produces a report of these diary dates on a weekly basis and Benefit Assessors use this to ensure the claimant / applicant has provided the required information to support their claim / application in respect of the predicted change. If the claimant / applicant has not provided the information, the Benefit Assessor will contact them to request the required information and, if appropriate, the claim / application will be suspended. The Benefit Assessor will then deal with the claim / application to its resolution.
- 2.3.4 There was a software problem between October 2016 and January 2017 which resulted in diary events not being picked up. The Service interrogated the Benefits system and produced a report in January 2017 to capture the unreported diary dates and Benefit Assessors actioned this report in the same manner as they would a normal diary report. A copy of this report was provided to Internal Audit providing claim ID, the diary date and the nature of the change in circumstances to be investigated. The report was sufficient for the purposes of identifying required diary dates.

2.4 Overpayments

- 2.4.1 Where a claimant's circumstances change resulting in a change in entitlement and the claimant does not inform the Council, an overpayment of Housing Benefit may occur. When the change is notified to the Council, the new details are input and entitlement is calculated. Any difference in entitlement for the period affected by the change will be recovered from the claimant.
- 2.4.2 The Council actively pursues overpayments, which are recovered from claimants by debtor invoice, or from ongoing benefit should the claimant still be entitled. Between 1 April 2016 and 23 March 2017 £2.8 million of overpayments were made.
- 2.4.3 The testing of 10 overpayments (5 rent rebate and 5 rent allowance) confirmed calculations were accurate and subsidy classifications were correct. However, there was an instance identified where an overpayment of £7,077 was marked as a Local Authority Error and therefore not recoverable. The claimant notified the Benefits Team of the relevant change in circumstances two years prior to the overpayment being identified. It is important that Benefit Processing Staff address all changes in circumstances notified in order to avoid unrecoverable overpayments occurring unnecessarily.
- 2.4.4 The Service advised that the Benefits Team has put significant work and extra checking into this area. Errors such as this are discussed at weekly Operational Meetings, after which staff are reminded of the importance of addressing changes in a timely manner. A weekly "Did you know" email highlights errors being made or processes which are not being correctly followed and reminds staff on the correct procedure. Extensive work has also been undertaken to improve processing times, which has reduced the number of days

to process from 40 to 18.4 for 2016/17. This, along with the work done on Accuracy, has resulted in Local Authority Error in the Subsidy Claim being reduced from being over both thresholds 2 years ago to £109,616 below the lower threshold this year.

- 2.4.5 The Scottish Director of Finance Performance Indicators were last published in 2015/16. These indicators are based on figures provided by the Service and are not audited. These showed the Council made overpayments of 0.39% of Benefits Expenditure which were due to Council error and there was a steady improvement when compared to 2013/14 (0.60%) and 2014/15 (0.5%). However, the rate of overpayments due to Council error was higher than the Scottish average of 0.21% in 2015/16. In 2016/17 overpayments of 0.27% of Benefits Expenditure were due to Council error.

2.5 Reconciliations

- 2.5.1 Reconciliations are carried out on a weekly basis to ensure the Rent Allowance and Rent Rebate payments on the Academy Benefit System are accurately interfaced to the eFinancials Ledger and I-World Rents systems as required.
- 2.5.2 A review of reconciliations completed in March 2017 confirmed that the Benefits System is being reconciled to the ledger and Rents System in a timely manner. Reconciliations were arithmetically correct and variances were highlighted for investigation.

2.6 Quality Assurance

- 2.6.1 To ensure accuracy of input, Service management review 10 claims / applications per month for each full time equivalent processing member of staff. Therefore, approximately 10% of all cases are reviewed to determine accuracy, compared to the DWP recommendation of 4%. In 2016/17, 93.39% of Housing Benefit claims and 93.63% of Council Tax Reduction applications were processed accurately compared to 91.77% of Housing Benefit claims and 92.95% of Council Tax Reduction applications in 2015/16.

2.7 Interventions

- 2.7.1 Interventions are a risk based means of proactively identifying unreported changes that affect benefit entitlement.
- 2.7.2 As per the Audit Scotland July 2015 Aberdeen City Council Audit of Housing Benefit Risk Assessment report, the Council was found to actively participate in the DWP's Housing Benefit Matching Service (HBMS), Audit Scotland's National Fraud Initiative (NFI) and the DWP's Real Time Information (RTI) data matching services, which all help to identify possible unreported changes of circumstances that require further investigation. The Benefits Processing Manager confirmed that Benefits Assessors continue to review information received in these reports and where required issue a full review to claimant.
- 2.7.3 The Benefit Team also set diary events where there is a predictive change in claimants' / applicants' circumstances, like chasing up evidence of earnings or a significant birthday that may affect entitlement. The Service has advised that they monitor diary dates, investigate any required changes to benefit entitlement and action these as appropriate.
- 2.7.4 The Benefit Team has in the past also carried out interventions, that target individuals with private pensions; cases not reviewed in the last 2 years and cases where the customer has capital exceeding £14,000. The Service has advised that these interventions were not carried out in the financial year 2016/17.
- 2.7.5 The Benefit Processing Manager prepared a report on Intervention Analysis 2015/16, which stated that for the first quarter of 2015/16 it was decided that no interventions would be carried out. This allowed resources to focus on bringing new claims / applications and

the changes in circumstance workload up to date. The Intervention activity recommenced in July 2015 however this was reduced in November 2015 due to a National Fraud Initiative Council Tax exercise. The following table highlights the intervention results between the financial years 2013/14 and 2015/16:

Year	Total of number of Interventions	Total number with increase in benefit	Amount of underpayments	Total number with a decrease in benefit	Amount of Overpayments	Average overpayment per intervention with decrease.
13/14	2,096	134	£14,219.37	1,199	£441,258.59	£368.02
14/15	751	71	£3,416.96	413	£157,701.46	£381.84
15/16	1,053	147	£12,774.20	373	£145,264.21	£389.45

2.7.6 The July 2015 Audit Scotland report highlighted that interventions were reduced in 2014/15, as a result of 9 experienced processing staff leaving the team. Subsequently a decision was taken to suspend targeted interventions so that processing performance was not compromised.

2.7.7 The Council has since opted into the DWP Right Benefit Initiative which began in April 2017. As a result the Council was awarded £50,206 for 2017/18, for additional staffing, to target incorrect earnings amongst claimants / applicants, the highest risk area for Housing Benefit fraud and error. The Council has been allocated 5,205 Optional RTI referrals for 2017/18. The DWP will monitor the volume of referrals processed, cases reviewed and outcomes through the Council's HBMS Single Housing Benefit Extract returns. The Service has advised that it would be focusing its resources on these referrals as per DWP recommendation.

AUDITORS: D Hughes
A Johnston
J Galloway

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1721 – Disclosure Checks
REPORT NUMBER	IA/AC1721
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Disclosure Checks.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Disclosure Checks.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1721 – Disclosure Checks.

9. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Disclosure Checks

Issued to:

Morven Spalding, Head of HR (Interim)
Fraser Bell, Head of Legal and Democratic Services
Steve Whyte, Head of Finance
Mike Lawson, HR Manager
Tracy Runcie, HR Team Leader
External Audit

EXECUTIVE SUMMARY

The Council is required to obtain appropriate disclosure checks to ensure that it does not allow any individual to carry out specific activities with children or protected adults who has been barred from such work. This requirement extends to both employees and volunteers.

The objective of this audit was to ensure that appropriate checks are being obtained as required. The general conclusion drawn from testing is that appropriate guidance is in place regarding employees and checks are being completed as required, although some recommendations have been made to ensure that records and documentation are enhanced.

Although appropriate checks were found to have been completed in relation to volunteers, the corporate policy covering the recruitment of volunteers needs to be more explicit regarding Disclosure requirements. To address this, the Council's Recruitment Guidance will be enhanced to include the Disclosure Check requirements relating to volunteers and will direct officers to the Council's Volunteering Policy and associated guidance.

1. INTRODUCTION

- 1.1 Disclosure Scotland is an Executive Agency of the Scottish Government whose primary objective is to provide an accurate and responsive Disclosure service. A Disclosure is a document containing impartial and confidential criminal history information held by the Police and government departments, which can be used by employers to make safer recruitment decisions.
- 1.2 Aberdeen City Council has been confirmed by Disclosure Scotland as a Registered Body, enabling the authority to countersign applications for Basic, Standard and Enhanced Disclosures and Protection of Vulnerable Groups Scheme Records and Updates. The Head of HR is the Lead Counter Signatory for the Authority and officers within Services have been registered with Disclosure Scotland as counter signatories.
- 1.3 The Protection of Vulnerable Groups (Scotland) Act 2007 (PVG Act) introduced a registration scheme for individuals carrying out regulated work with children and protected adults. Disclosure Scotland maintains records of this registration and consult with Police and other authorities to identify pertinent information regarding registered individuals. Lists are also maintained by Disclosure Scotland of individuals who have been identified as being unsuitable to work with each group.
- 1.4 It is a criminal offence for an organisation working with children or protected adults to employ an individual who has been barred from such work, to carry out specific activities with these groups. There is therefore a requirement for the Council to join the Scheme, and ensure that employees / volunteers in regulated work are checked and records obtained prior to employing them to do these types of work.
- 1.5 Disclosure Scotland also provides criminal conviction certificates (Basic Disclosures), criminal record certificates (Standard Disclosures) and enhanced criminal record certificates (Enhanced Disclosures) for other specific posts and activities as provided for under the Police Act 1997 and Criminal Records (Scotland) Regulations 2010.
- 1.6 Whilst HR is responsible for policy and procedure in respect of these checks, and is available to provide advice on specific cases, individual Services are required to ensure compliance by determining applicable posts, obtaining information on prospective employees and assessing their suitability.
- 1.7 Disclosure Scotland charges for this Service. In financial year 2016/17, approximately £81,000 was spent on such checks across the Council, compared to approximately £133,000 the previous year. One reason for the decrease is that Bon Accord Care is now a Registered Body and is undertaking checks previously carried out by the Council.
- 1.8 The objective of this audit was to consider whether arrangements in place to ensure that appropriate employees / volunteers have been checked are adequate. Specific testing of compliance was targeted at high risk areas. This involved interviewing staff, obtaining copies of procedures and guidance, and reviewing job categories and checks of employees and volunteers made within the last twelve months.
- 1.9 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Ewan Sutherland Head of HR, Mike Lawson HR Manager and Tracy Runcie, HR Team Leader.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policies & Procedures

- 2.1.1 Comprehensive written policies and procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed.
- 2.1.2 Disclosures are administered by a dedicated team within HR. Guidance on Disclosures has been produced by this team for use across the Council and is available on the Zone. At the time of audit these procedures were under review as they need to be updated following recommendations made in previous audits. However the current procedures relating to Disclosures were seen to be generally clear and comprehensive, covering all issues relating to recruitment, data handling, leavers and referrals.
- 2.1.3 Guidance for employers and applicants is available from Disclosure Scotland, including a Code of Practice and guides to checking and completing various types of Disclosure. The HR team holds copies of this guidance for reference and refer to Disclosure Scotland to ensure the copies are up to date.
- 2.1.4 Per Disclosure Scotland guidance, employers should maintain a list of authorised signatories who have been registered with Disclosure Scotland for the purpose of counter-signing applications for checks. The list of authorised signatories is held and maintained by the HR team. The format complies with Disclosure Scotland requirements and the entries were seen to be up-to-date. The Service advised that regular audits are undertaken to ensure only appropriate staff are entered on the list, as required by the Disclosure Scotland Code of Practice.

2.2 Document Storage & Retention

- 2.2.1 The 2007 Act stipulates how PVG certificates and data may be recorded and stored. The Council has a policy on secure handling, storage, retention and destruction which was designed to comply with the Code of Practice, as well as with Data Protection legislation. Disclosure information is only passed to authorised staff; no vetting or conviction information is retained.
- 2.2.2 Currently, the portion of Disclosure certificates containing vetting and criminal conviction information is removed and securely destroyed as soon as the relevant information (type and unique reference number of the Disclosure, date of issue, clear or unclear) has been recorded in the HR database PSe. The remainder of the certificate is scanned and added to the employee's personal file.
- 2.2.3 A recent audit undertaken by Disclosure Scotland found the Council to be fully compliant in terms of how certificates are handled, stored and destroyed securely. However, the process is currently under review, with consideration being given to destroying the entire Disclosure certificate once information is recorded in PSe.

2.3 Recruitment

- 2.3.1 In order to comply with legislation, the Council must identify relevant posts undertaking regulated activities, ensure that prospective candidates are advised whether satisfactory PVG or Disclosure checks are required, then undertake those checks prior to confirming appointment of the preferred candidate(s) and their commencing employment performing those activities.

- 2.3.2 In conjunction with HR, Services have developed lists of all posts, and documented their disclosure requirements. This list is maintained by the dedicated HR team and is regularly updated. New and amended posts are assessed using a template spreadsheet created by HR which includes details of required checks. HR will check with Services where vetting has been requested to confirm that it is justified, and Disclosure Scotland also carry out spot checks during the application process.
- 2.3.3 Existing recruitment and selection procedures and paperwork should ensure that checks are undertaken, results are considered, and offers of employment are only made to suitable individuals for each post. Records of these activities are maintained by Services using the recruitment portal (TalentLink), in spreadsheets or databases of disclosure and PVG applications, on the HR database PSe, and in Personnel files held by HR.
- 2.3.4 The requirement for a Disclosure check is identified when the post is created, assessed and categorised by HR using the Job Number spreadsheet. This is then included in the Recruitment Advertising Form, which is completed by the recruiting Service and retained by HR in their shared drive and in the successful candidate's personnel file. The recruitment process is tracked through TalentLink. The requirement for and type of check is flagged in the advert, which triggers template application questionnaires and offer letters which request Disclosure information.
- 2.3.5 When a preferred candidate is identified an entry is created in the HR Disclosure database recording their personal details and the type and date of check applied for. When the results are received the membership or certificate number and date, and the outcome, are also recorded in the database. The outcome is communicated to the recruiting manager for a final decision; if the result of the check was unclear, further investigations are made to ascertain whether the candidate is suitable. Once the candidate has received final approval from the recruiting manager they are allocated a payroll number, a record is created in PSe and the membership or certificate number, date of check and outcome (clear/unclear) are input to the Disclosure field, access to which is restricted.
- 2.3.6 A sample of 40 positions advertised during March 2017 was selected and reviewed to confirm that prospective candidates were advised of the need for checks. Of the 40 reviewed, 31 required a check of some kind. All had been tagged as such within TalentLink, and the type of check was appropriate and proportionate. However, in one case a Standard Disclosure was required but this was not stated in the job advert or attached documents.
- 2.3.7 A further sample of 40 newly filled positions where checks were advertised as required was selected and reviewed to confirm that checks were appropriate, were correctly and timeously recorded, and that candidates did not take up their role until satisfactory checks had been received. The sample was weighted towards Social Care, and Education & Children's Services, as these are the Directorates with the largest number of posts requiring checks. In 3 cases the position had been advertised as requiring vetting but none had been undertaken. The Service advised that after initial categorising, through discussions with Services and Disclosure Scotland it had been agreed that these roles did not require vetting; however the tag had not been removed from the adverts.

Recommendation

The Service responsible for placing vacancies should ensure that all posts requiring vetting are advertised as such.

Service Response / Action

Agreed. A review of job numbers is currently underway and this includes the category of Disclosure check required (if any). The Recruitment Advertising Form (on YourHR) is currently being piloted in schools. Once this is rolled out, the job number information

will be pre populated so this will only pull through a PVG/Disclosure check requirement if this is recorded against the job number.

In addition, whilst a Service may have requested this check from the outset, further correspondence with Disclosure Scotland once a preferred candidate was identified may have led to the need to review this in terms of legislation/legal entitlement to make such a request.

The review of job numbers should hopefully resolve this as we have built up knowledge of jobs which Disclosure Scotland have advised do not qualify for such checks. A Disclosure Scotland Workshop was held on 22 May 2017 with the majority of counter signatories attending this.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2017	HR Team Leader and Digital HR Project Manager	Significant within audited area

- 2.3.8 In one case, the individual took up their role before the required PVG check was processed. The Service advised that the regulated work had not begun until after the check had been received. However, the appointment to a regulated post was made prior to the PVG Scheme Record being received.

Recommendation

Employees should not be appointed prior to the relevant Disclosure being received and approved.

Service Response / Action

Agreed. This was a specific circumstance where the individual applied for and was appointed to 2 positions in quick succession with the more senior position requiring a PVG. A reminder has been issued to all HR Service Centre (HRSC) staff advising them of this requirement.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Implemented	HR Team Leader	Significant within audited area

- 2.3.9 For all other cases in the sample, checks were appropriate and had been carried out and recorded promptly, and the candidates had not taken up their role before satisfactory results had been received. However, in 2 cases the wrong type of check had been recorded in PSe. The Service advised after checking their database that the correct checks had been carried out.

Recommendation

The Service responsible for inputting vetting information to PSe should ensure that this is done accurately.

Service Response / Action

Agreed. Information was initially recorded in spreadsheets in various formats and then uplifted into PSe. The intention is to request an updated interested party status list from Disclosure Scotland and uplift this into PSe as an up-to-date and accurate record.

A reminder has been issued to all HRSC staff.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Notification to HRSC – Implemented	HR Team Leader	Important within audited area
PSe update based on Disclosure Scotland list – August 2017		

2.3.10 15 posts from across the Council were reviewed to confirm that they had been assessed and categorised as requiring checks. All had been assessed and were appropriately categorised. In only one case was a justification provided in the recruitment form for requesting the check. The Service advised that most new posts are based on existing posts where a check has already been agreed to be justified.

2.4 Scheme Membership Administration

2.4.1 When the PVG Scheme was introduced in 2011 Registered Bodies were given 3 years to ensure that all existing employees undertaking regulated work were enrolled in the new Scheme. The Service advised that an exercise was undertaken in 2011 to categorise all posts according to the level of vetting required and ensure all incumbents were enrolled, and that all new and existing posts are now categorised using a template which ensures this information is included. The Service provided a listing of posts categorised as PVG which was seen to be comprehensive. The Service further advised that the retrospective checking exercise was complete, and this was confirmed by a note in the Disclosure Scotland compliance audit referred to in paragraph 2.2.1, above.

2.4.2 In addition, per the Council PVG Protocols, Services are expected to maintain a list of posts that require to be checked, and undertake an annual review of the list to take account of change of duties and the working locations of posts.

2.4.3 Once an individual is a PVG Scheme member, Disclosure Scotland will keep the individual's PVG Scheme membership and vetting information up-to-date through a process called continuous updating. Disclosure Scotland keep a record of registered and regulatory bodies which have an interest in the individual and, if a PVG Scheme member is placed under consideration for listing as unsuitable, or barred from doing regulated work, the individual and any organisations with an interest in the individual will be notified.

2.4.4 It is the responsibility of the Scheme member to notify Disclosure Scotland if they leave an organisation or otherwise cease to carry out regulated work. However, in order to prevent inappropriate notifications it is good practice for organisations to notify Disclosure Scotland of a cessation of interest in an individual, and this is examined as part of the Disclosure Scotland compliance audit.

2.4.5 A sample of 8 leavers within the last 12 months from posts categorised as regulated work was identified through PSe and reviewed to confirm that Disclosure Scotland had been advised. In 4 cases the date noted interest was recorded as having ceased was over two months after the date of leaving. In two cases no note of cessation of interest was recorded in PSe. The Service advised that in the past the process had not been as efficient as it could have been but that action had now been taken to bring records up to date and notify Disclosure Scotland where necessary.

2.4.6 This issue was raised in the Disclosure Scotland audit of 2016 and the Service had agreed to act on their recommendation by amending the leavers' process to ensure that notes of interest were not left outstanding. The Service has advised that the termination process has been amended and Disclosure Scotland is now advised by email as part of that process.

2.5 Agency Workers

- 2.5.1 Guidance on recruiting agency workers is available on the Zone. Services are prompted by pre-created agency worker job profiles to consider whether the assignment will involve “regular, direct contact with children or vulnerable adults”. The standard Agency Worker Authorisation Form contains a section to be completed if PVG or Police disclosure checks are required. The agency is then required to supply a worker who has undergone such vetting and reliance is placed by the Council on the agency to do this correctly. As it is the agency rather than the Council which is the interested party it is not possible to double check.
- 2.5.2 A sample of 8 agency workers recruited within the last twelve months was obtained from data tested in an Internal Audit of Agency Workers (AC1712) and Authorisation Forms were reviewed to confirm that procedures had been followed. For all workers reviewed the form had been marked to request a worker with membership of the Scheme. In some cases additional information had been inserted to identify the type of check.
- 2.5.3 It was observed that the form does not require the type of PVG or Police disclosure to be specified. It is possible therefore that a worker with PVG Adults could be supplied for a role working with children, or vice versa. The Service has agreed to modify the form; a recommendation is included here to track progress.

Recommendation

The Service should amend the Agency Worker Recruitment Form to give details of the type of disclosure check required.

Service Response / Action

Agreed.

Implementation Date

June 2017

Responsible Officer

HR Team Leader

Grading

Important within audited area

2.6 Volunteers

- 2.6.1 Volunteers carrying out regulated work on behalf of the Council must also undergo disclosure checks. A separate spreadsheet is maintained by the dedicated HR team for applications for checks on volunteers as these are not recorded in PSe, even where the individual is also employed by the Council. This spreadsheet contains the same data as that recorded for employees.
- 2.6.2 The Finance, Policy and Resources Committee approved a corporate Volunteering Policy in September 2013. This makes reference to Disclosure requirements, however, the actual requirements could be more explicit and provide better guidance to users. Although this Policy is not readily available on the Council’s Intranet, there is an Education and Children’s Services Volunteering Policy Framework guidance which follows the policy on disclosure checks for staff. A refreshed corporate policy on recruitment of volunteers would ensure consistency and mitigate against the risk of volunteers undertaking regulated work without appropriate vetting.

Recommendation

The corporate policy and procedure on Volunteering, more specifically as it relates to the recruitment of volunteers, should be refreshed, ensuring that Disclosure requirements are explicit, and ensure that this is widely publicised within the Council.

Service Response / Action

It is agreed that this issue needs to be addressed. The Council's Recruitment Guidance, which is currently being updated, will be revised to include the Disclosure Check requirements for volunteers and will signpost officers to the Volunteering Policy and associated E&CS Guidance. A corporate communication will be issued when the Recruitment Guidance is finalised which will highlight the changes, and the HR list of on-line Frequently Asked Questions will be updated to include the checks required when engaging volunteers.

Implementation Date

October 2017

Responsible Officer

HR Team Leader

Grading

Significant within audited area

- 2.6.3 Three service providers using volunteers were contacted to ascertain whether Council policies on disclosure checks were being followed. The Services contacted were all aware of policies and procedures for volunteers and worked with HR to ensure that checks were undertaken where appropriate. None permitted volunteers who had been identified as undertaking regulated work to take up the role before satisfactory checks were received.

2.7 Foster Parents / Adoptive Parents

- 2.7.1 Foster carers are defined in the 2007 Act as carrying out regulated work and are required to undergo PVG checks. Within the Council these checks are the responsibility of the Alternative Family Care team, and are included in the procedure manual. This procedure was seen to be clear and up to date, with references to Disclosure Scotland guidance.

- 2.7.2 The procedure states that all prospective Foster Carers and Kinship Carers must undergo a satisfactory PVG check before being accepted. The Service then requires an Update every 3 years; this is a precautionary measure to ensure that no changes are missed, even though, as Scheme members, they are subject to Disclosure Scotland's "continuous updating".

- 2.7.3 Prospective Adopters, and household members of prospective Adopters, Foster Carers and Kinship Carers, must undergo an Enhanced Disclosure Check which should be updated every 2 years. Social Work maintain their own confidential Disclosure Spreadsheet in the same format as that kept by HR for employees, which records dates, membership numbers and outcomes (clear / not clear); certificate details are added to the carer record in CareFirst, access to which is restricted to staff who require such access to carry out their duties.

- 2.7.4 A sample of 7 prospective Foster Carers and Adopters was provided by the Alternative Family Care team and reviewed. In 6 cases, PVG or Police disclosure checks, as relevant, had been carried out and reported as clear before the prospective carer was accepted; in one case the result was not clear and the carer was not accepted until further investigation could be carried out. Data had been recorded in the spreadsheet and CareFirst as required and the disclosure certificates had been securely destroyed.

2.8 Payments to Disclosure Scotland

- 2.8.1 Disclosure Scotland sends consolidated monthly invoices which show the barcode reference from the certificate, the full name of the individual and the type of check. These are received by the HR Team Leader and sent to the dedicated HR team for approval and the manual addition of the appropriate cost centre for each entry. The annotated invoices are then sent to Accounts Payable for payment, and scanned into the InfoSmart document storage system.

- 2.8.2 Costs for 2015/16 were £132,851 and for 2016/17 were approximately £81,000. One reason for the decrease is that Bon Accord Care is now a Registered Body and is undertaking checks previously carried out by the Council.
- 2.8.3 Commercial and Procurement Services has confirmed that Disclosure Scotland is acting as the sole Executive Agency in charge of Protection Services on behalf of the Scottish Government and is, therefore, the only supplier. In view of this, use of Disclosure Scotland is not considered to be a procurement and, therefore, suspension from the Council's Procurement Regulations is not required.
- 2.8.4 The sample of new employees reviewed in 2.3.6 was checked against InfoSmart and confidential records held by HR to confirm that all applications were recorded and had been authorised; only recorded applications were paid for and the correct fees charged; invoices were authorised before payment; and that Services were charged only for applications relating to their staff / recruitment activities.
- 2.8.5 All applications had been recorded and authorised. Some invoices had yet to be received; all those which had been received had been checked, approved and the charges split and charged to the correct Service.
- 2.8.6 In 5 cases the invoice charged for a Scheme Record Application (£59) while the check recorded in PSe, and required per the information supplied by the applicant, was for a Scheme Record Update (£18). The Service advised that in all cases the wrong application type was recorded in PSe in error. Since a recommendation has already been made (above) to ensure data is entered into PSe accurately, no recommendation has been made here. The Service has consulted with Disclosure Scotland and confirmed that an application would not be processed if submitted in error, as the person would be identified as already in the Disclosure System; in which case the Service would be advised by Disclosure Scotland that a different type of application should be submitted.

AUDITORS: D Hughes
A Johnston
L Jarvis

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system’s adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1722 – ALEOs – Management by Services
REPORT NUMBER	IA/AC1722
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on ALEOs – Management by Services.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of ALEOs – Management by Services.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1722 – ALEOs – Management by Services.

9. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

Internal Audit Report

Arm's Length External Organisations – Management by Services

Issued to:

Fraser Bell, Head of Legal and Democratic Services

Steven Whyte, Head of Finance

Euan Couperwhite, Head Of Policy, Performance and Resources

Richard Sweetnam, Head of Economic Development

John Quinn, Head of Land and Property Assets

Tom Cowan, Head of Operations, Aberdeen City Health and Social Care Partnership

Alex Stephen, Chief Finance Officer, Aberdeen City Health and Social Care Partnership
External Audit

EXECUTIVE SUMMARY

The Council has elected to provide or contribute to the provision of some services through Arm's Length External Organisations (ALEOs), where it is considered that this will be the best option for delivery of these services and providing Best Value. Typically these are arrangements which fall outwith normal direct service delivery, grant funding or commercial contractual relationships, but where there remains an element of control exercised over service delivery.

Statutory service provision remains the responsibility of the Council. Discretionary services also carry an element of reputational risk through association. It is therefore important that the relationship between the Council and ALEOs is managed effectively.

The objective of this audit was to consider how services manage their ALEOs including payments and performance. Although there are processes and agreements in place for doing so, some of these have not been well evidenced, and in some cases reliance has been placed on ALEO Governance Hubs to review performance, which was not part of their remit. The level of assurance provided to Committees varies. Education and Children's Services and the Health and Social Care Partnership have agreed to review their performance management indicators and reporting arrangements. New Assurance Hub arrangements agreed by the Audit, Risk & Scrutiny Committee in June 2017 should improve consistency going forward.

Communities Housing and Infrastructure, and Finance, have noted that subsequent to audit fieldwork taking place the ALEO arrangement with AECC Ltd has been wound up. The Finance, Policy and Resources Committee approved a contract for a new operator for the existing and new Exhibition and Conference Centres in December 2016, and a financial commitment of £1.27 million per year for 2017/18 and 2018/19 for the operation and management of the existing venue. Contractual details, including performance management are to be approved by the Head of Legal and Democratic Services, the Interim Depute Chief Executive (Director of Corporate Governance) and Head of Finance.

1. INTRODUCTION

- 1.1 Local Authorities may elect to provide services through Arm's Length External Organisations (ALEOs), where it is considered that this will be the best option for delivery of these services and providing Best Value. Typically these are arrangements which fall outwith normal direct service delivery, grant funding or commercial contractual relationships, but where there remains an element of control exercised over service delivery.
- 1.2 Whilst aspects of service delivery have been assigned to various ALEOs, the responsibility for statutory service provision remains with the Council. Discretionary services also carry an element of reputational risk through association. It is therefore important that the relationship between the Council and ALEOs is managed effectively.
- 1.3 The objective of this audit was to consider how services manage their ALEOs including payments and performance.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with: Euan Couperwhite, Head of Policy, Performance and Resources; Richard Sweetnam, Head of Economic Development; John Quinn, Head of Land and Property Assets; Alex Stephen, Chief Finance Officer – Aberdeen City Health & Social Care Partnership, and Steven Whyte, Head of Finance.

2. FINDINGS AND RECOMMENDATIONS (General)

2.1 Background

2.1.1 The Following the Public Pound procedure, updated in September 2015, sets out key controls and sources of assurance over various levels of funding relationship between the Council and Arm's Length External Organisations (ALEOs) or grant funded organisations. Four tiers of funding have been identified:

- Tier 1 comprises ALEOs which are either: a) significant in size, and over which the Council exercises substantial control, and they are sufficiently significant that their annual results are included in the financial statements or Group Accounts; or b) there is no Group relationship but more than £7 million of public funds are provided by the Council in the delivery of the organisation's services.
- Tier 2 organisations are either: a) smaller in operational scale, but over which the Council exercises substantial control, and not sufficiently material in size to be included in the financial statements or the Group Accounts or b) financially supported with more than £300,000 of public funds, but less than £7 million.
- Tier 3 covers funding between £75,000 and £300,000; and Tier 4 between £15,000 and £75,000. Whilst there are likely to be some more formal relationships between the Council and external organisations at these levels, it is typically limited to awarding deficit funding.

2.1.2 Aberdeen City Council has identified seven ALEOS:

Tier 1:

- Aberdeen Exhibition and Conference Centre (CH&I)
- Aberdeen Sports Village (E&CS)
- Bon Accord Care (H&SCP)
- Sport Aberdeen (E&CS)

Tier 2:

- Aberdeen Heat and Power (CH&I)
- Aberdeen Performing Arts (E&CS)
- Garthdee Alpine Sports (E&CS)

2.1.3 The Finance, Policy and Resources Committee have asked the Head of Policy, Performance & Resources (E&CS) to undertake a review of sports provision across the city, taking cognisance of existing organisations providing sports facilities and present an integrated sports strategy to the committee later in the year. This will include a review of the future of Sport Aberdeen, Garthdee Alpine Sports, Adventure Aberdeen and Transition Extreme (which is neither an ALEO nor connected to the Council but has been in receipt of funding for the past few financial years through FP&R Committee). The review is anticipated to be completed by November 2017.

2.2 Agreements

2.2.1 The Following the Public Pound code of practice states that funding agreements may take different forms, but must be in writing. Funding in excess of £300,000 should be subject to a Service Level Agreement, and below that level a letter of agreement setting out the conditions of funding is required. The agreement should include non-financial targets and information.

2.2.2 Services were asked to provide copies of the signed agreements and funding letters for ALEOs funded in 2016/17. Unsigned agreements for all but one ALEO (AECC, which was only recently revised) were provided, however not all Services were able to provide

evidence of signed annual funding letters, including cases where additional funding has been awarded subsequent to the original agreement.

<u>Recommendation</u>		
Services should ensure all ALEO funding is subject to current agreements and annual funding letters issued in advance.		
<u>Service Response / Action</u>		
ECS: Agreed. Annual funding letters for 2017/18 will be issued to all ECS ALEOs.		
CHI: Agreed re Aberdeen Heat & Power. Council has a signed contract with AHP for 50 years. Funding letters are therefore contract letters issued for works done as commissioned on an individual basis. These are retained.		
CHI: Agreed for 2016/17 re AECC. However AECC Ltd no longer operates the venue from April 1 2017 and an SLA is no longer applicable as the Council has entered into a contract with SMG Europe to operate the existing venue.		
HSCP: Agreed. Annual funding letter for 2017/18 has been issued to Bon Accord Care.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
ECS: July 2017	Head of Policy, Performance and Resources (Euan Couperwhite);	Significant within audited area
HSCP: Implemented	Chief Finance Officer (IJB)	

- 2.2.3 The code of practice requires that annual funding for ALEOs in Tier 1 should be approved by the relevant Service, through its budget approval process and delegated authority arrangements or Service Committee or Finance, Policy and Resources Committee (if funding is to be approved from the 'Financial Assistance' budget or in the event of the funding being beyond the budgeted contribution, i.e. the budget set for the organisation).
- 2.2.4 Standing Orders provide that each Committee and Sub Committee shall have power to determine all applications for loans, grants, donations and subscriptions (other than those relating to the day to day operational requirements of the service which are delegated to the Chief Officer) in respect of services which are linked to or associated with the functions of that Committee or Sub Committee, so long as such amount can be contained within the approved budget for that function.
- 2.2.5 Under the scheme of delegated powers Officers have delegated authority for expenditure up to £60,000, but no specific power to award grants / deficit funding. Therefore in the absence of specific delegations, the Committee should be asked to approve annual funding.
- 2.2.6 This was the case for Bon Accord Care (2016/17 – Full Council, 2017/18 – IJB), and AECC (2016/17 – Finance, Policy & Resources). However, funding for Aberdeen Sports Village and Sport Aberdeen had not specifically been approved by the Education and Children's Services Committee for 2016/17, though savings options in respect of these funding arrangements were highlighted as part of the budget setting process.
- 2.2.7 Tier 2 ALEOs funding may be agreed via the Council's annual budget setting process (though this does not typically include detailed funding arrangements unless changes are being proposed), or through delegated authority.

Recommendation

Services should ensure they can demonstrate that all ALEO funding has been approved annually, in advance, at the appropriate level.

Service Response / Action

ECS: Agreed. A report on funding for ECS ALEOs will be provided to the Education and Children's Service Committee meeting in January of each year. For 2017/18 a report which confirmed funding levels was presented to the Education and Children's Services Committee on 1 June 2017.

CHI: There is no annual funding requirement for Aberdeen Heat & Power.

CHI: A procurement process was completed in December 2016 to appoint an operator for the existing and new AECC venues. SMG were successfully appointed under contract therefore AECC Ltd, who were an Aberdeen City Council ALEO, no longer operate the existing AECC venue. AECC Ltd has been wound-up and therefore will no longer be eligible for funding from ACC.

HSCP: Funding for Bon Accord Care was agreed at the IJB on 7 March 2017.

Implementation Date

ECS: Implemented

Responsible Officer

Head of Policy,
Performance and
Resources (Euan
Couperwhite)

Grading

Significant within audited
area

2.3 Performance

- 2.3.1 The Following the Public Pound code of practice requires Tier 1 ALEO performance to be monitored by Service Committees, through an annual report from the budget holder. This should include financial performance as well as the aims and objectives of the organisation and how these are being met, whether standards set by the Council have been met, other performance measures and targets and where applicable future plans.
- 2.3.2 Tier 2 and below ALEO performance should be monitored by the relevant Council Service, through reports provided by the ALEO, covering service and financial performance and any relevant changes.
- 2.3.3 Each ALEO agreement contains a requirement to provide performance data on an agreed basis to the aligned Council Service. The content of these are mixed. Services were requested to provide evidence to demonstrate that performance data had been received as timetabled, and to the level anticipated. Services were also requested to provide details of actions taken as a result – e.g. meetings with ALEOs to discuss performance. Education and Children's Services have been able to demonstrate that Aberdeen Performing Arts' performance is being monitored in accordance with their agreement. In respect of the other ALEOs, Services have not provided evidence that officers are obtaining and reviewing performance data on a regular basis.
- 2.3.4 If officers are not regularly reviewing ALEO performance information, there is an increased risk of ALEOs underperforming, or pursuing alternative strategies to those agreed, without this being identified and addressed at an early stage.

Recommendation

Services should ensure assurance is regularly obtained at an agreed level over all ALEOs' performance.

Service Response / Action

ECS: Agreed and in place. Prior to the release of service payments, each ALEO has to submit performance data to the ECS Policy and Performance team for scrutiny. In addition, there are quarterly meetings with the University of Aberdeen and ASV to review governance and performance.

CHI: Agreed re Aberdeen Heat & Power. The Service (Land & Property Assets) has monthly meetings with Aberdeen Heat & Power to review performance, and participates in AHP Board meetings and development meetings.

CHI: Service level agreement was in place for AECC Ltd for 2016/17 where quarterly meetings were carried out to review governance and performance. However due to them being unsuccessful in the procurement exercise there is no service level agreement in place for 2017/18. This is no longer an ALEO. Quarterly performance and events data will be obtained under the new contract.

HSCP: See paragraph 3.3.3 for Bon Accord Care performance monitoring. In addition work is being undertaken to have a quarterly performance management meeting with senior officers from Aberdeen City Health & Social Care Partnership and Bon Accord Care in order to obtain further assurance over performance.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
ECS: Implemented	Head of Policy, Performance and Resources (Euan Couperwhite)	Significant within audited area
HSCP: Implemented	Chief Finance Officer (IJB)	

- 2.3.5 An ALEO Governance Hub was established as a forum for obtaining assurance from ALEOs on their governance arrangements. This also included a requirement for the Hub to report quarterly on Tier 1 ALEOs risk management arrangements to the Audit, Risk and Scrutiny Committee and twice yearly to the relevant Service Committee on aspects including operational performance, people performance, risk management and service quality. Committee reports on Tier 2 ALEOs are not subject to specific requirements on timing and content. Committee terms of reference were updated in March 2014 to reflect the Committees' new remits to receive these reports (Report CG/14/038). Officers have however stated that it was not intended for the Hub to review ALEO performance.

- 2.3.6 At Audit, Risk and Scrutiny Committee of 25 June, 2015, it was agreed that “services committees would receive a report in relation to the ALEOs they were responsible for and that in future the minutes from the ALEO Governance Hub would be reported to this committee”. At a further meeting on 9 March, 2016, to clarify the role that service committees were to undertake given that some service committees had just received the appropriate hub minutes with a report asking that they be noted, it was agreed to “refer the individual minutes, with a specific covering report prepared by the responsible Head of Service, to the appropriate service committee to consider ALEO performance against agreed performance indicators and contract.” The Committee Orders of Reference were not updated to reflect this as there were expectations that a new committee structure may be coming forward later in 2016 to be in place prior to the May 2017 elections; this was subsequently delayed by the Governance Reference Group to post elections and the report will follow the new structure discussion at Council on 23 August. So, the old Orders of Reference remain as agreed in 2014.
- 2.3.7 Performance results for ALEOs are not all being reported regularly to Service Committees. Where they have been presented, the information may be somewhat out of date by the time the ALEOs own boards have received results, discussed and approved the release of information, Service Management has considered results and met ALEO representatives to discuss them, and Committee reports have been prepared.
- 2.3.8 The Hub has a standard agenda, including discussion of the various risks and operational performance, however whilst it is clear that performance reporting arrangements have been discussed with most of the ALEOs the minutes show that few Hub meetings have received and considered operational performance data. In addition, the Hub has not met since August 2016 pending a review of its role. There has therefore been limited assurance passed on to Service Committees from this source.
- 2.3.9 It was noted by the Audit, Risk and Scrutiny Committee in September 2016 that specific covering reports would be prepared by the responsible Heads of Service and submitted to the appropriate Service Committees to consider ALEO service delivery and performance against agreed performance indicators and contract. As at February 2017 this had only been provided in respect of two of the seven ALEOs: Communities Housing and Infrastructure Committee in November 2016 in respect of Aberdeen Exhibition and Conference Centre; and to Education and Children’s Services Committee in September 2016 regarding Aberdeen Performing Arts. Each included brief notes on ALEO performance, as at an undisclosed date, and appended the minutes of the May 2016 Hub meeting at which governance and risks had been discussed.
- 2.3.10 It is apparent that the role of Service Committees, the Governance Hub, and Service Management have not been clearly set out and adhered to, resulting in only limited assurance being provided to Service Committees on the performance of their ALEOs. As a result it will be difficult for them to determine whether ALEOs are delivering the anticipated outcomes, and to direct management action as appropriate.

Recommendation

Services should ensure that Service Committees are regularly provided with assurance at an agreed level over ALEOs’ performance and service quality.

Service Response / Action

Agreed. In June 2017 the Audit, Risk & Scrutiny Committee approved the adoption of a new Assurance Hub model, covering governance, risk management and financial management. Service directorates will be responsible for providing assurance to service committees on service performance and ensuring that ALEOs are complying with their contractual obligations to the Council. The model also includes that ALEO accounts would be presented to Finance on a quarterly basis to support the quarterly

reporting of Group Accounts to the Finance, Policy and Resources Committee in light of the bond issue.

ECS: Agreed. Each ALEO is required to submit its annual business plan to the Education and Children's Services Committee. This contains detail on performance measures and service update reports will be submitted every 6 months for Committee review and consideration.

CHI: Agreed for Aberdeen Heat & Power. This will be put in place for Aberdeen Heat & Power in 2017.

CHI: Agreed re AECC and was in place. The ALEO was required to submit its annual audited accounts to ACC for scrutiny. In addition, minutes from the ALEO Governance Hub were also reported to Committee for review. This is no longer an ALEO. Quarterly performance and events data will be obtained under the new contract.

HSCP: Agreed. A private report was presented to the IJB on 28 March and the Managing Director of Bon Accord Care spoke to this report providing the Board with information about the future strategic direction of Bon Accord Care and the performance to date. Minutes from the ALEO Governance Hub were reported to the Audit & Performance Systems Committee of the Integration Joint Board. Reports will be submitted every 6 months for Board review and consideration.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
ECS: Implemented	Head of Policy, Performance and Resources (Euan Couperwhite);	Significant within audited area
CHI: AHP: December 2017	Head of Land & Property Assets (John Quinn)	
HSCP: Implemented	Chief Finance Officer (IJB)	

2.4 Payments

2.4.1 The ALEO agreements generally separate payment from performance. The agreements are contingent on adequate performance, and information being received, but payments are generally scheduled on a periodic basis. Whilst some Services ensure that performance information has been received, and is satisfactory, before payments are approved, this is not the case for the majority of ALEOs reviewed. Although the agreements require performance indicators to be reported, and some (AECC) include targets, only the agreement with Bon Accord Care specifies required performance parameters.

2.4.2 As with a contract, if performance is not satisfactory, Services would engage with the ALEO under the terms of their agreement. In the unlikely event that issues could not be resolved the agreement could be considered breached and subsequently ended, however this presents a number of risks: it could take some time to resolve performance issues through mutual agreement, and payments would continue in the interim though might not achieve best value for the Council's resources. Ending agreements, other than at the end of their specified term, is unlikely to be straightforward – alternatives for service provision would need to be put in place (and many agreements therefore include a 'step-in' option for the Council to take over the activity in such a case). It may also be difficult to justify to

elected members and the public. This option is therefore unlikely to be exercised lightly as a result of variations in performance.

- 2.4.3 Alternative options, for example withholding or reducing the value of payments pending performance improvements, are not currently explicitly specified in the majority of the existing agreements. Including such options in future agreements could improve Services ability to maintain their assurance over ALEO performance and outcomes by providing additional incentive to deliver performance at the required level. There is however a risk that such action might impact on the financial position of ALEOs, which could itself impact on performance.

<u>Recommendation</u>		
Services should review options for performance management within future ALEO agreements.		
<u>Service Response / Action</u>		
ECS: Agreed. Work has already taken place with Sport Aberdeen to review performance management KPIs and this will be reflected in the work with other ECS ALEOs.		
CHI: Agreed for Aberdeen Heat & Power. AHP have their own KPIs which are part of performance reporting to their own Board. These are intended to be reviewed by Land & Property Assets to match our KPI performance reporting.		
CHI: Re AECC: Performance management KPIs were included in the 2016/17 ALEO service level agreement. This is no longer an ALEO. Quarterly performance and events data will be obtained under the new contract.		
HSCP: Agreed, new performance management KPIs will be added to the Bon Accord Care contract during the renewal process for 2018.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
ECS: July 2017	Head of Policy, Performance and Resources (Euan Couperwhite);	Significant within audited area
CHI: AHP: December 2017	Head of Land & Property Assets (John Quinn)	
HSCP: July 2018	Chief Finance Officer (IJB)	

- 2.4.4 The majority of ALEOs issue invoices for their funding payments, and apply VAT as appropriate to their individual circumstances. The VAT treatment is determined by the nature of the service that the ALEO is providing and its trading relationship with the Council.

- 2.4.5 Although many of the payments to ALEOs under their agreements (aside from services purchased on an ad-hoc basis) appear at face value to represent deficit funding or contributions towards their activities, rather than provision of specific services, a VAT tribunal in 2012 determined liability for VAT on payments to Aberdeen Sports Village - because Aberdeen Sports Village is financially controlled by the Council, and the Council also receives taxable benefits such as staff priority access to facilities. Sport Aberdeen and Garthdee Alpine Sports have applied similar arguments for payments received from the Council.
- 2.4.6 The payment to Aberdeen Performing Arts is considered by the Council to be a freely given donation, therefore VAT is not applied. However, the Service Agreements in place present a number of contractual obligations, including Council approval of APA's detailed business plans and the purposes for which service payments may be used, specific elements of the Music Hall upgrade programme, and a requirement for mutual agreement of Activity Plans and their delivery to the reasonable satisfaction of the Council. Aberdeen Performing Arts was subject to a VAT inspection in June 2016, and no issues were raised with the Council's contribution.
- 2.4.7 The Service Agreement for payments to AECC Ltd, which had no VAT applied, also presented contractual obligations for delivery of services, including delivery of the objectives of the Regional Economic Strategy, an annual independent economic impact analysis, and promotion of and assisting with design and technical reviews for the new AECC. Additional funding was also provided, on the basis of a standard rated VAT invoice, for additional marketing of the new venue. The new contract was subject to tender, as a commercial relationship exists with the operator of the new Centre.
- 2.4.8 Finance has stated that although the contracts include these clauses the Council does not itself receive any direct benefits from these conditions hence the VAT treatment as outside the scope. Ultimately it is the ALEOs that are responsible for ensuring VAT has been treated correctly on their invoices, and if HMRC consider that VAT has been excluded, it is the ALEOs which will be penalised by HMRC. Nevertheless, the Council has taken advice from VAT experts and from HMRC to ensure that the correct treatment of VAT has been applied on ALEO payments. VAT inspectors also routinely carry out checks on the treatment of VAT by the Council, and have considered payments to ALEO's as part of their inspection work. The VAT treatment is determined by the nature of the service that the ALEO is providing and its trading relationship with the Council. If it were determined that in a specific instance VAT should have been charged but hasn't been then it is acceptable for the ALEO to raise a VAT-only invoice to the Council for the missing VAT, and the Council would be able to reclaim this VAT back from HMRC so the situation would be VAT neutral for the ALEO, the Council and HMRC. Although the ALEO could still be liable to penalties and interest in this situation, these could be reduced by demonstrating the VAT neutral position to HMRC.
- 2.4.9 In such a case there would be a reputational risk for the Council through association, and should there be a financial impact on the ALEO additional resources may be required to address any risks to service delivery. The Council's VAT officer considers that the correct VAT treatment has been applied by all its ALEOs and that any such risk is minimal.

3. FINDINGS AND RECOMMENDATIONS (Specific)

Tier 1 ALEOs

3.1 Aberdeen Exhibition and Conference Centre

- 3.1.1 Although the Service was able to provide a copy of the final agreement (dated 5 April 2016) with AECC Ltd, it was unable to evidence that a copy had been signed by both parties. In the absence of a signed agreement there is a risk in the event that either party considers obligations have not been fulfilled.
- 3.1.2 Approximately £1.2 million was paid in 2015/16, which included the provision of services (see 2.4.7) in addition to deficit funding. Funding of £1.12 million for 2016/17, as part of a new Service Level Agreement, was agreed by Finance, Policy & Resources Committee in April 2016.
- 3.1.3 Except as part of the annual group accounts process, and the last Governance Hub in August 2016, the financial position of AECC was not monitored strictly in line with the terms of the agreement during 2016/17. Finance has stated that alternative additional scrutiny had been applied during development of proposals and tendering for the new contract, pending conclusion of the ALEO arrangements in March 2017.
- 3.1.4 A tendering exercise was completed in 2016 to appoint an operator for the venue which is being built to replace Aberdeen Exhibition and Conference Centre. A contract is now in place, instead of an ALEO.
- 3.1.5 Although the 2016/17 service agreement with the current operator (AECC Ltd) included that "The Company shall, using existing staff resources, actively promote the New ACC", an additional £170,000 was paid to help them to market the new venue. There are no specific terms and conditions attached to the additional payment, nor a requirement for evidence of expenditure incurred before payments were released. The Service provided a copy of the business case presented by AECC Ltd, which sets out reasons for the funding being requested and measures which could be provided to demonstrate its application. However, it has not provided details of any separate agreement, or evidence that the additional funding was approved at an appropriate level.
- 3.1.6 In the absence of clarification from the Service, it is not clear whether the additional award was authorised, whether sufficient assurance is being sought that best value is being achieved with the funding, and that the full amount is being spent prior to each instalment being paid over.

Recommendation

The Service should provide assurance that the additional funding for AECC was approved at the appropriate level, clear agreements were in place to document its use, and arrangements were in place to evidence best value is being obtained.

Service Response / Action

On 27 June 2016 Audit Scrutiny and Risk Committee noted the £170k additional spend identified through the ALEO Governance Hub report. In May 2016 the AECC Development Project Board agreed the promotional budget was to come from the new AECC budget. The additional funding was included in the new AECC development budget to promote the new venue. This was to ensure the new venue and operator had sufficient time to maximize the opportunities to attract top events to Aberdeen.

Audit Comment

Grading

The Audit Risk and Scrutiny Committee is not a policy committee and therefore does not approve the use of funds. Although a plan for use of the funding has been evidenced, the Service has not provided assurance that performance and results against this plan were reviewed.	Significant within audited area
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- 3.1.7 Performance information is provided to the Service, and has been reported to the Communities Housing & Infrastructure Committee, however there is a substantial delay between the end of the reporting period, and presentation to Committee.
- 3.1.8 The Service has stated that Board meetings are attended by the budget holder, and inform the decision to release payments, however evidence has not been provided to demonstrate attendance or how this informs decision making on payments.
- 3.1.9 VAT has not been applied to the annual funding payments to AECC Ltd as it considers that the funding is outside the scope of VAT and not for provision of a service. It has been applied to the additional marketing payments as it considers that this is a payment for providing services to the Council. This is further discussed at 2.4.7-2.4.9 above.

3.2 Aberdeen Sports Village

- 3.2.1 There is a signed copy of the operating agreement on file, but the Service has been unable to provide a copy of the 2016/17 funding award letter. Over £1.32 million was paid in 2015/16, which included the provision of services in addition to deficit funding.
- 3.2.2 Although payments are usually made to Aberdeen Sports Village quarterly, one payment for a single month was identified. If payments are not made at a consistent frequency there is a risk of duplicate or overlapping payments being made inadvertently. The Service has been unable to provide details of controls in place to avoid duplicate payments.

<u>Recommendation</u>		
The Service should ensure payments are made in line with the agreed frequency.		
<u>Service Response / Action</u>		
Agreed. Payments will be made in line with the agreed profile. It should be noted that the annual year for Aberdeen Sports Village is not in line with the local authority but is based on the University of Aberdeen's financial year.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Implemented	Head of Policy, Performance and Resources (Euan Couperwhite)	Important within audited area

- 3.2.3 The Service has stated that performance is being monitored, and discussed with the budget holder prior to releasing payments, however has been unable to provide evidence to demonstrate that this is the case.
- 3.2.4 VAT is being applied to payments to Aberdeen Sports Village. The First Tier Tribunal held in 2012 determined that the payments are consideration for supplying services, and that VAT is applicable.

3.3 Bon Accord Care

- 3.3.1 There is a Service Level Agreement covering Bon Accord Care's relationship with the Council. Whilst there is evidence supporting the agreed amounts to be paid, and subsequent in-year adjustments, there were no formal advance funding agreement letters held on file. In 2015/16, £167,000 was paid to Bon Accord Care Ltd, and £28.9 million to Bon Accord Support Services Ltd. These include charges for specific services in addition to those payable under the Service Agreement.
- 3.3.2 Annual performance reports are prepared by Bon Accord Care, along with their financial report and accounts.
- 3.3.3 Care commissioned from Bon Accord Care is subject to contract monitoring via the Commissioning and Contracts Team, against individual service specifications for residential services, care at home and housing support services. The Team uses a standard contract monitoring framework for this purpose in line with the treatment of any other externally commissioned service. There are a range of weekly and monthly statistics obtained, and visits are undertaken to residential premises and meetings are held with Bon Accord Care staff.
- 3.3.4 The provision of Learning and Development services and other aspects of the agreement are not monitored by this team. The Service has not provided details of how other services and performance are monitored.

3.4 Sport Aberdeen

- 3.4.1 A copy of the funding agreement letter for 2016/17 has been provided, showing funding of £5,458,903 for 2016/17. The Service has been unable to provide a copy of the Service Level Agreement (or similar) with Sport Aberdeen for this or additional awards for "investment agreement: ACC and SportScotland" (£174,600) and "Active Schools" (£16,662).
- 3.4.2 The April 2016 meeting of the Finance, Policy and Resources Committee considered a report on the Contract Revision and Governance Arrangements for Sport Aberdeen. Within the report it was stated that Sport Aberdeen needs to raise £5 million over five years to invest in the Council's facilities, and that it was agreed to delegate authority to the Head of Finance to provide a bank guarantee to the lender as the contract with Sport Aberdeen is due to expire in 2020.
- 3.4.3 The report stated that there are safeguards in terms of the amount of debt taken on by Sport Aberdeen in the annual Business Plan which is approved each year by the Education and Children's Services Committee, and which should be monitored every six months by the ALEO Governance Hub. However, there have been no Hub meetings since August 2016, and the position has not been specifically monitored since.

Recommendation

The Service should ensure that the amount of debt taken on by Sport Aberdeen is being monitored.

Service Response / Action

Agreed. The Service will work in conjunction with the Finance Service to monitor the level of debt being taken on by Sport Aberdeen. Finance will authorise each draw down on the bank funding available up to £5m. The financial position has been reviewed as part of the group accounts at 31 March 2017. There were no debts at 31 March, other than routine trade creditors. The new quarterly reporting arrangements will ultimately mean that the debt position is considered on a quarterly basis.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Implemented	Head of Policy, Performance and Resources (Euan Couperwhite)	Important within audited area

- 3.4.4 As part of a historical arrangement the Council has been paying 11% of the monthly electricity costs (approximately £3,000 per month) for the sports complex and ballroom at the beach (for use of the ballroom) to Sport Aberdeen. This has recently been queried, and meters have been installed to enable accurate readings to be taken for the ballroom. Initial review by officers suggests that the actual usage is substantially lower than has been paid for. The Service is continuing to investigate with a view to correcting payments going forward.
- 3.4.5 The Service has stated that performance is being monitored, and discussed with the budget holder prior to releasing payments, however has been unable to provide evidence to demonstrate that this is the case.
- 3.4.6 VAT is being applied to payments to Sport Aberdeen, because it considers that the payments made are for services provided.

Tier 2 ALEOs

3.5 Aberdeen Heat and Power

- 3.5.1 Agreements dated 2003 and 2005 have been provided to the ALEO Governance Hub. These refer to initial payments towards works, of £215,000 per annum, capped at £1 million or the cost of the works if lower. There was no ongoing funding in 2015/16 and 2016/17. The operating costs of Aberdeen Heat and Power are recovered via charges made for the energy supplied, and there is no direct contribution towards the operating costs from the Council. The Council may provide funding towards the cost of new district heating schemes, specifically in relation to the buildings that it owns. Over £2.1 million was paid for services (the provision of heat and power to various buildings, mainly HRA properties and a school) in 2015/16.
- 3.5.2 In November 2016 the Communities, Housing & Infrastructure Committee agreed that Aberdeen Heat and Power's performance would be measured according to KPI headings, which were to be developed by Aberdeen Heat and Power. In order to ensure Council funds are being used as planned the Council should specify the levels of performance and how they will be reported, rather than the ALEO. The recommendations at 2.3.4 and 2.4.3 apply.

3.6 Aberdeen Performing Arts

- 3.6.1 There are various funding agreements in place with Aberdeen Performing Arts (APA). These include £1 million towards Music Hall upgrades in 2016/17, a £720,000 Service Level Payment, £171,000 for management of the Lemon Tree, and £75,000 for Lets.
- 3.6.2 Performance indicators are required to be reported to the Service, which receives them in line with the service agreement. These were formerly reported to the Governance Hub, and the Education and Children's Services Committee thereafter, but have not been reported since the Hub last met in August 2016.
- 3.6.3 There is no VAT applied to payments to Aberdeen Performing Arts, and it is considered by the Council to be a freely given donation. There are specified services within parts of

the service agreements, and they are referred to as Service Payments – see discussion at 2.4.6-2.4.9.

3.7 Garthdee Alpine Sports

3.7.1 The agreement received in respect of Garthdee Alpine Sports is dated 2007, and may be out of date. The Service has been unable to provide a copy of the funding letter confirming the agreed awards for 2016/17.

3.7.2 The Council approved £202,000 of funding for Garthdee Alpine Sports for 2016/17, which is quoted in Garthdee Alpine Sports' business plan agreed by the Finance Policy & Resources Committee in September 2016. However, if equal payments continue to be made quarterly, the total paid to the organisation will be £210,600 – which is what was awarded the previous year.

Recommendation

The Service should ensure the payments being made to Garthdee Alpine Sports are in line with the value agreed.

Service Response / Action

Agreed. This will be reflected in 2017/18 payments.

Implementation Date

Implemented

Responsible Officer

Head of Policy,
Performance and
Resources (Euan
Couperwhite)

Grading

Important within audited
area

3.7.3 The Service has stated that performance is being monitored, and discussed with the budget holder prior to releasing payments, however has been unable to provide evidence to demonstrate that this is the case.

3.7.4 VAT is being applied to payments to Garthdee Alpine Sports, because it considers the payments made are for services provided.

AUDITORS: D Hughes
C Harvey
A Taylor

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1804 – Business Continuity Planning
REPORT NUMBER	IA/AC1804
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Business Continuity Planning.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Business Continuity Planning.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1804 – Business Continuity Planning.

9. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

Internal Audit Report

Business Continuity Planning

Issued to:

Bernadette Marjoram, Interim Director of Communities, Housing and Infrastructure
Fraser Bell, Head of Legal and Democratic Services
Derek McGowan, Head of Communities and Housing
Craig Innes, Head of Commercial and Procurement Services
David McIntosh, Emergency Planning Strategist
Steven Whyte, Head of Finance
External Audit

EXECUTIVE SUMMARY

Business Continuity is the capability of an organisation to deliver essential services during and after a disruptive incident, and resume normal service provision following such an event. Business Continuity Plans are maintained by the Council for this purpose.

The objective of this audit was to ensure that Business Continuity Plans are in place as required by the Business Continuity Policy and that arrangements adequately manage identified risks. This included a review of written procedures and training; business continuity plan completion, review and testing; post incident debriefs; key suppliers; reporting arrangements and risk registers.

Business Continuity Plans are generally in place for critical functions as required by the Business Continuity Policy however it was noted that some Plans were incomplete or were not in the format prescribed by the Business Continuity Policy. Other areas where improvements could be made include access to training; review and testing of Plans which were not always completed annually in line with the Business Continuity Policy; assessment of Key Suppliers and reporting arrangements of Plan review and testing. Actions have been agreed with Services in response to recommendations made in respect of these points.

1. INTRODUCTION

- 1.1 Business Continuity is the capability of an organisation to deliver essential services during and after a disruptive incident, and resume normal service provision following such an event. Schedule 1 Part 2 of the Civil Contingencies Act 2004 (the Act) defines the Council as a Category 1 Responder in relation to emergencies as defined by the Act. As such, Section 2 (c) of the Act requires the Council 'to maintain plans for the purpose of ensuring, so far as is reasonably practicable, that if an emergency occurs, the person or body is able to continue to perform his or its functions'. Business Continuity Plans are maintained by the Council for this purpose.
- 1.2 According to the Council's Business Continuity Policy, Business Continuity Plans must, as a minimum, address the following:
- staff safety, welfare and internal communications;
 - the continuance and resumption to normality of critical functions (as defined by Service Directors);
 - adherence to contractual and statutory obligations;
 - management of risk;
 - maintenance of customer confidence and the reputation of the Council.
- 1.3 Business Continuity Planning is undertaken by Service representatives assisted by the Emergency Planning Unit and representatives of support services such as Finance and ICT. This process involves identifying critical functions and the risks to their continued operation. Business Continuity Plans are then produced and tested and staff are trained in their use.
- 1.4 When preparing plans, consideration should always be given to the risk of loss of facilities, systems and staff. In addition, the response should be defined in terms of the duration of the impact, ie interruption to services for up to 24 hours; up to 3 days; and longer. Interdependencies between Services should also be considered when preparing plans.
- 1.5 In the event of an incident that disrupts a critical service, Business Continuity Plans will be used to co-ordinate the response, to rescue and recover work in progress, and manage the resumption of service delivery, ie ensuring accommodation and staffing are redeployed and systems are restored as required.
- 1.6 The objective of this audit was to ensure that Business Continuity Plans are in place as required by the Business Continuity Policy and that arrangements adequately manage identified risks.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Derek McGowan, Head of Communities and Housing, and David McIntosh, Emergency Planning Strategist.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

- 2.1.1 Comprehensive written policies and procedures and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 A Business Continuity page is included on The Zone. This is clearly laid out, providing a definition of Business Continuity and links to the Business Continuity Policy and Procedures, as well as guidance and templates for carrying out testing of Business Continuity Plans and post incident debriefs, to identify lessons learned following an incident disrupting critical service delivery.
- 2.1.3 The Emergency Planning Unit is responsible for preparing the Business Continuity Policy for the Council. The Policy is comprehensive and adequately describes the definition of Business Continuity Management; the objectives of Business Continuity Plans; the basis for planning; the statutory requirements; roles and responsibilities in relation to Business Continuity Planning; the key considerations when preparing plans as well as how to carry out a post incident debrief exercise. In addition, the Policy includes a Corporate Business Continuity Plan template for Services to complete and a separate Emergency Response and Business Continuity Plan template for schools. These templates are well laid out with contents pages and examples of what is required. However, it was noted that the Business Continuity Policy was last updated in April 2014 and is therefore due to be reviewed.

Recommendation

The Business Continuity Policy should be reviewed and updated as required.

Service Response / Action

Agreed. This should be reviewed annually and timetabled as such.

Implementation Date

August 2017

Responsible Officer

Emergency Planning
Strategist

Grading

Important within audited
area

- 2.1.4 According to the Business Continuity Policy, it is the responsibility of the Emergency Planning Unit to provide access to Business Continuity training. The Emergency Planning Strategist advised that no formal training is provided, however the Emergency Planning Unit is available to assist with Business Continuity Plan reviews and testing. Whilst the Business Continuity Policy and Procedures are comprehensive and adequate, face-to-face training on how to prepare, review and test Business Continuity Plans could improve understanding of what is required and ensure Services prepare adequate Business Continuity Plans that comply with the Policy.

Recommendation

The Emergency Planning Unit should provide access to training to Services on preparation, review and testing of Business Continuity Plans.

Service Response / Action

Agreed. A Business Continuity Instruction Guide will be included on the Zone Business Continuity intranet page. The Service will provide face-to-face training if required and the Zone will be updated to reflect this.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
August 2017	Emergency Planning Strategist	Significant within audited area

2.2 Business Continuity Plan Preparation and Testing

2.2.1 According to the Business Continuity Policy, it is the responsibility of Service Directors to identify critical functions within their Service, and to produce and test related Business Continuity Plans. It is the responsibility of the Emergency Planning Unit, on behalf of the Corporate Management Team (CMT), to ensure effective Business Continuity Plans for critical functions are produced by Services, and to provide support to Services in the production and testing of their Business Continuity Plans.

2.2.2 The Zone Business Continuity webpage describes the following functions as critical, as defined by CMT, and therefore requiring a Business Continuity Plan:

Chief Executives Office

- Media Team

Corporate Governance

- Contact Centre, Service Centre & Regional Communications Centre
- Finance
- Human Resources including Health and Safety and Payroll
- Registrars
- ICT

Education, Culture and Sport

- Schools

Communities, Housing & Infrastructure

- Facilities Management
- Fleet Management
- Roads
- Bereavement Services
- Protective Services (Environmental Health)
- Homelessness
- Waste & Recycling

Integrated Health & Care

- All Functions

2.2.3 The Director of Communities, Housing and Infrastructure (CH&I) reported to CMT in January 2014, that Plans were in place for all of the above critical functions. The Emergency Planning Strategist, has advised that these Plans have been uploaded to a separate 'Resilience Direct' server, to be accessed in the event of the Council's servers failing.

2.2.4 A sample of 21 critical Business Continuity Plans across all Services was selected, including 10 schools. 21 Plans were in place and 11 were complete. The Adult Social Care Plans were in an old format, however the Team Manager Business Support for the Health and Social Care Partnership has advised that the Plans are in the process of being transferred to the new format, prior to being issued to plan owners to be checked and updated as required. The Facilities Management Plans were not in the prescribed format. Failure to prepare Plans in the format prescribed by the Business Continuity Policy

increases the likelihood that risks and mitigating controls will be omitted from Plans and may make the Plans more difficult to interpret in the event of an emergency.

Recommendation

Business Continuity Plans should be completed where incomplete.

The format prescribed by the Business Continuity Policy should be used when preparing Plans.

Service Response / Action

Agreed. These recommendations will be monitored through the Resilience Working Group on a clear timetable by 30 September 2017. The Emergency Planning Strategist will meet with Service Managers on a one-to-one basis reporting progress to the Resilience Working Group with final assurance on all plans provided by 31 December 2017.

Implementation Date

December 2017

Responsible Officer

Emergency Planning Strategist

Grading

Significant within audited area

- 2.2.5 It is a requirement of the Business Continuity Policy that plans are reviewed and tested annually. The Council's Records Management Plan was last updated in April 2016 and stated 'The Council is currently conducting a test and review phase of work, ensuring the quality assurance of critical function Business Continuity Plans, and the quarterly reporting of progress to the Council's Corporate Management Team.'
- 2.2.6 The Emergency Planning Strategist reviewed the Corporate Governance (CG) Business Continuity Plans in May and June 2016, providing comments and recommendations as appropriate and then met with the plan owners and CG Business Manager to agree changes to Plans. Thereafter, a desktop exercise was held in September 2016 to test the effectiveness of the Plans. The Emergency Planning Strategist advised Internal Audit in July 2016, as part of the Public Records (Scotland) Act audit, that the intention was to review CH&I plans by the end of August 2016 and test these in September 2016 and that all other plans were to be reviewed and tested by the 31 December 2016. This has not been achieved.
- 2.2.7 Whilst there is evidence that Services have processes in place to review and test Business Continuity Plans and to manage the process, a significant number of plans were incomplete and not all completed plans have been reviewed and tested as required by the Business Continuity Policy. Some that had been tested had failed the test. This means that there is a risk that, in the event of an emergency, there is no Plan in place to direct the response or that Plans are no longer relevant or may not work if required.
- 2.2.8 Currently Services maintain their own records of Business Continuity Plan review and testing status. These are in different formats and need to be requested from individual Service leads or Service Managers in the case of CH&I. This is inefficient for reporting purposes and increases the risk that Business Continuity Plan deficiencies will be missed and corrective action not taken.

Recommendation

The Emergency Planning Strategist should agree a timetable with Plan owners to review and test Business Continuity Plans where overdue.

A central record of progress on Business Continuity Plan review and testing should be maintained in a standardised format.

Service Response / Action

Agreed. Review and testing of Plans will be monitored through the Resilience Working Group.

Implementation Date

December 2017

Responsible Officer

Emergency Planning Strategist

Grading

Significant within audited area

2.3 Post Incident Debrief

2.3.1 Should an incident occur that disrupts the delivery of a critical service, the affected Service is required to carry out an Exercise Debrief to identify good practice and areas for improvement during the course of the response. The Exercise Debrief template is used for this purpose.

2.3.2 Three major incidents were selected to identify if an exercise debrief report had been prepared. Two had been assessed, covering: incident summary; event timeline; effect on business functions; assessment of response; lessons learned, both positive and negative, with related recommendations; and an action plan through use of the template. An independent review was carried out in relation to the third and all reports were submitted to CMT in a timely manner.

2.3.3 The Team Manager Business Support for the Health and Social Care Partnership has advised that the only recent incident affecting critical service delivery for the Health and Social Care Partnership related to a February 2017 Care Inspectorate report. The Emergency Planning Strategist advised a debrief session took place on 20 July and the Head of Operations – Health and Social Care Partnership has been provided with the debrief output and the Incident Report Template. The Head of Operations – Health and Social Care Partnership will be responsible for identifying the actions arising from the debrief.

2.4 Key Suppliers

2.4.1 Business Continuity Plans are required to include lists of key suppliers and the goods / services provided in order to deliver critical functions. Services are required to obtain Key Supplier Assessment Questionnaires, as shown in Appendix B of the Corporate Business Continuity Plan, which have been completed by key suppliers.

2.4.2 Although key suppliers have been identified in the Business Continuity Plans reviewed during this audit the questionnaires were blank. Commercial and Procurement Services (CPS) do not currently ensure Key Supplier Assessment Questionnaires are completed by key suppliers and the desired outcomes of the questionnaires are not included in contracts as standard. This increases the risk that goods and services required to deliver critical functions will not be supplied in the event of a failure at a key supplier. It has been agreed that Procurement Guidance will be issued on the requirement to obtain completed questionnaires for suppliers of goods and services required by critical functions. A recommendation is included for tracking purposes.

Recommendation

CPS should update Procurement Guidance Notes to reflect the requirement to obtain a Key Supplier Assessment Questionnaire for Key Suppliers.

Service Response / Action

Agreed.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
October 2017	Strategic Procurement Manager (Category Management)	Significant within audited area

2.4.3 Council Services can also be key to the delivery of a critical function and where this is the case they must be listed in the Business Continuity Plan. A sample of 4 Business Continuity Plans was selected, where Council Services were identified as key to delivery of a critical function, to ensure the Services were consulted and agreement was reached on the response expected to maintain service delivery. The Emergency Planning Strategist advised that agreement is not reached in such circumstances between Services and instead there is a requirement for Business Continuity Plans to be prepared by key Services in order to maintain service delivery. Business Continuity Plans were in place for the key Services listed in the Plans selected.

2.5 Organisational Resilience Self-Assessment

2.5.1 The Council engaged an Emergency Planning and Response Consultant in August 2016 to conduct an Organisational Resilience Self-Assessment exercise in order to establish the Council's capacity and capability to respond to an emergency. Standards were developed for the purposes of conducting the review based on British Standards on Organisational Resilience, Crisis Management and Business Continuity and other related guidance. Questionnaires were circulated to 119 third tier managers to be completed and 24 responses were received.

2.5.2 A draft report was prepared in April 2017 based on the responses to the questionnaires. This included findings concerning Business Continuity Plans including awareness being limited beyond those who have responsibility for Plans. A recommendation was made that Plans should be more accessible to staff, to support the early stages of a response.

2.5.3 The draft report includes an Action Log of all recommendations made in the report and has been issued to the Inspectorate of Constabulary for a peer review. The Chair of the Council's Resilience Working Group will monitor progress implementing recommendations. While the Action Log includes a column for responsible officers to be allocated to recommendations, it does not identify implementation dates increasing the risk that actions will not be completed in a timely manner.

<u>Recommendation</u>		
Implementation dates and responsible officers should be allocated to recommendations listed in the Action Log.		
<u>Service Response / Action</u>		
Agreed. The Resilience Working Group will monitor progress on recommendations listed in the Action Log and report to CMT on a quarterly basis.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2017	Emergency Planning Strategist	Important within audited area

2.6 Reporting

2.6.1 The last Business Continuity Progress Report was presented to CMT by the Director of Communities, Housing and Infrastructure in November 2014. The report was prepared by the Emergency Planning Strategist and three other similar reports were presented to CMT throughout 2014, providing an update on the progress of reviewing and testing Plans.

The May 2014 report highlighted difficulty obtaining responses from plan owners. Similar difficulties were reported in the November 2014 report.

2.6.2 In May 2016 CMT agreed to set up a Resilience Working Group, in response to the Storm Frank flooding incident report, to monitor progress with the incident report action plan. The Resilience Working Group was subsequently set up, with the aim of ensuring the Council takes a consistent approach to emergency and business continuity management, which meets the requirements of the Civil Contingencies Act 2004 and its supporting guidance. As well as monitoring the flooding incident action plan, the group's objectives, as per its Terms of Reference, include ensuring appropriate plans, procedures and training are in place to support business continuity and emergency response, as well as ensuring Corporate and Service Emergency and Business Continuity Plans are routinely reviewed and tested.

2.6.3 The group was previously chaired by the City Centre Director and is now chaired by the Head of Communities and Housing. Service representatives are required to attend, as well as the Emergency Planning Strategist. The Group is scheduled to meet quarterly and report to CMT on this basis, as described in the Records Management Plan, but has only met once in August 2016 to discuss normal business. As a consequence the Group has not been in a position to update CMT on progress relating to reviewing and testing Business Continuity Plans or reporting on the status of incident action plans increasing the risk that Business Plans will not be prepared and tested as required. The Emergency Planning Strategist has advised that the Resilience Working Group will begin meeting quarterly and the Chair will update CMT on a quarterly basis. Recommendations are included here for tracking purposes.

<u>Recommendation</u>		
The Resilience Working Group should meet quarterly to ensure appropriate Business Continuity Plans are in place, covering all critical areas, and to monitor progress on reviews and testing of critical Business Continuity Plans.		
The outcome of Resilience Working Group Business Continuity Plan monitoring should be reported to CMT on a quarterly basis.		
<u>Service Response / Action</u>		
Agreed. The Resilience Working Group needs to have scheduled meetings so progress is updated as required.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2017	Head of Communities and Housing	Significant within audited area

2.6.4 The Emergency Planning Strategist has confirmed that the Resilience Working Group has met since August 2016 to specifically discuss the terror threat level. The first meeting held on 16 January 2017 was to discuss planning for a change in the threat level. A subsequent meeting was held 24 May 2017 to discuss the change in the UK terror threat level from severe to critical.

2.6.5 The CG Business Manager provided reports to the CG Service Management Team (SMT) advising of progress reviewing Plans in January and June 2016. The action plan from the subsequent testing exercise of Plans was communicated to all involved in September 2016, including the Interim Depute Chief Executive (Director of Corporate Governance). No formal reports have been made to the Health and Social Care Partnership SMT on Business Continuity Plan status. The E&CS Directorate Support Manager has advised that E&CS Directorate Leadership Team (DLT) consider Business Continuity Planning fortnightly, as it is covered as part of the Directorate Risk Register standing agenda item.

Recent E&CS DLT agendas and minutes, were provided by the E&CS Directorate Support Manager. Whilst the Directorate Risk Register is considered as a standing item, the E&CS DLT minutes provided did not demonstrate that Business Continuity Plan testing and review status is being considered by E&CS Directorate Leadership Team. It was confirmed that reports on Business Continuity Plan review and testing are not submitted to CH&I SMT.

<u>Recommendation</u>		
Business Continuity Plan progress should be reported to Senior Management Teams on a quarterly basis and progress reports should be provided to the Resilience Working Group.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2017	Head of Communities and Housing	Significant within audited area

2.7 Risk Registers

2.7.1 Risks registers are used as a tool to manage and monitor risk, which is the combination of the likelihood of an event occurring and its impact. According to the Council's Risk Management Manual, risk registers should record the status of individual risks; their causes and potential impact; the effectiveness of controls and mitigation; the designated risk owner; and the level of risk which is agreed to be tolerable.

2.7.2 Business Continuity Planning is described as a 'risk treatment' by the Risk Management Manual. The Risk Management Manual goes on to state 'Responsibility for treatment should be given to those who are in the best position to control risk.' The Emergency Planning Strategist has advised that where a requirement to prepare a Business Continuity Plan has been identified as a mitigating control within a risk register, there is an expectation that this would be completed by the risk owner and submitted to the Emergency Planning Unit. However, the Emergency Planning Unit do not currently review risk registers to monitor emergent risks for the purposes of testing Plans. This increases the likelihood that emergent risks identified in Risk Registers will not be mitigated by Business Continuity Plans. In addition, the Performance and Risk Manager has advised that while there are some service level Risk Registers in place which are actively managed this is not currently the case for all services.

<u>Recommendation</u>		
Service Risk Registers should be put in place for all service areas.		
The Corporate, Directorate and Service Risk Registers should be reviewed to identify emergent risks requiring to be mitigated by Business Continuity Plans.		
<u>Service Response / Action</u>		
Agreed. This will be managed through the Resilience Working Group and CMT.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2017	Head of Communities and Housing	Important within audited area

AUDITORS: D Hughes
A Johnston

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1805 – Attendance Management
REPORT NUMBER	IA/AC1805
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Attendance Management.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Attendance Management.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1805 – Attendance Management.

9. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

Internal Audit Report

Corporate Governance

Attendance Management

Issued to:

Morven Spalding, Head of HR (Interim)
Fraser Bell, Head of Legal and Democratic Services
Steven Whyte, Head of Finance
Lindsay MacInnes, Interim HR Manager
External Audit

EXECUTIVE SUMMARY

In order to maximise employee attendance, the Council introduced a policy and procedure on Attendance Management, known as 'Maximising Attendance', in 2010, which was last reviewed in March 2014. The objective of this audit was to test compliance across all Services and to determine if it is having a positive effect on attendance levels.

Some of the policy guidance and training is now out-of-date and needs to be updated in line with its three-yearly review period. The audit also identified that the policy is not being followed in all cases by Service management. It has been agreed with HR that the policy and associated documentation / training will be updated and Services reminded of the requirements to comply with it, with HR monitoring compliance. This will be done before the end of 2017/18.

Following the last policy review in 2014 there was a drop in absence rates, although they rose again but fell slightly when targeted action was taken. The levels remain fairly constant at present but are higher than following the policy review. Following review and relaunch of the policy in 2017/18 it can be anticipated that, if the policy is followed by all Services, absence levels should again reduce.

1. INTRODUCTION

- 1.1 The Council is committed to maximising attendance at work by providing all reasonable support to employees and to remove or reduce any work-related factors that may discourage reliable attendance. To help achieve this, the Council has approved and published a policy and procedure on Attendance Management, known as 'Maximising Attendance'.
- 1.2 The objective of this audit was to test corporate compliance with the policy and determine if it is having a positive effect on attendance. This involved reviewing the policy and related procedures; analysing samples of absences to confirm procedures are being followed; and considering trends and reporting over the last 3 financial years.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Morven Spalding, Head of HR (Interim), and Lindsay MacInnes, Interim HR Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed.
- 2.1.2 The current policy is called Maximising Attendance (MA) and was introduced in 2010. The policy states that it should be reviewed by HR every three years; it was last reviewed in March 2014 and, at time of the audit, was scheduled for review by the HR Team Leader – Policies as part of a rolling process. Copies of policies and procedures are held on the Zone and training is available through the online training portal OIL.
- 2.1.3 Guidance was seen to be comprehensive and accessible; however some of the guidance relating to online certification dates from 2014 and is noted in the version control data as being maintained by an employee who has recently left the Council. The OIL training dates from 2011 and refers to statistics and forms which are now out of date. The Service was aware that the OIL training was out of date and that it is due to be reviewed and revised. The Interim HR Manager advised that targeted training is delivered by HR Business Partners to new managers based within Services, as part of an induction one to one. Maximising Attendance policy key points are covered in a Powerpoint presentation.

Recommendation

The Service should review, and update where necessary, the Maximising Attendance policy, guidance and training.

Service Response / Action

Agreed. The Maximising Attendance policy, guidance, and training are currently under review and it is anticipated the revised policy will be reported to the Finance Policy & Resources Committee in early 2018.

Implementation Date

February 2018

Responsible Officer

HR Team Leader, Policies
& Performance

Grading

Important within audited
area

2.2 Absence Reporting

- 2.2.1 The MA guidance includes instructions on the reporting of sickness absence. Absences of 7 days or less should be self-certified on the employee's return to work. For absences that exceed 7 days, employees are required to obtain a Fit Note from their General Practitioner and send this to their line manager for recording. It should be noted that this contradicts Government guidance for employees on the Fit Note, which states that "The fit note is your property and you should keep it – your employer can take a copy if they want one for their records". The practicalities of doing this would appear to outweigh the benefits. The Service advised that the guidance does not reflect current practice, which requires employees to send an electronic copy to their manager so that details can be input to YourHR. This will be covered in the review of guidance scheduled for early 2018.
- 2.2.2 Testing was undertaken on a sample of 40 absences (20 short-term and 20 long-term) to confirm that the terms of the MA Policy had been complied with. This confirmed that all but 6 had been notified through YourHR within 3 working days of the absence commencing. The exceptions took between 4 and 17 working days to be notified. If absences are not reported promptly they may not be recorded accurately and if a trigger is met by the absence, the appropriate process may be delayed.

- 2.2.3 Information on return to work interviews is recorded in YourHR. 25 of the sample had no evidence of a return to work interview being completed. Therefore there is no evidence of appropriate action being taken to address the cause of the absence or to support the employee as required by the Policy.
- 2.2.4 All were input to the YourHR system correctly and online sickness certificates were available. In 5 cases not all copies of Fit Notes had been provided to Payroll for filing, although they had been recorded in YourHR as seen by the managers concerned. This issue is considered in more detail in 2.2.12 below.
- 2.2.5 The MA procedures detail certain trigger points that are automatically advised to the relevant line manager and associated HR Business Partner by email when they are reached. Short term absence triggers are shown in the table below.

Absence over a rolling reference period of:	Total Working Days lost to sickness:	Number of separate occasions:
12 months	10 days	3
24 months	15 days	5

- 2.2.6 The trigger point for long term absence is the first day over four calendar weeks from the first day of sickness. The Interim HR Manager has advised that a HR Advisor is assigned to such cases.
- 2.2.7 Records relating to a sample of 40 employees who had reached absence trigger points were reviewed to confirm that trigger notifications had been sent timeously; an attendance review had been carried out; appropriate action was taken following the review; and supporting documentation was retained.
- 2.2.8 Appropriate trigger notifications had been issued for all but two of the sampled cases. One absence commenced prior to April 2016 when data was transferred to the YourHR system whilst in another case the employee had been absent on ten occasions over a twelve month period. IT investigated and established that the return to work entries, required to initiate the trigger notifications, had not been input into the YourHR system.
- 2.2.9 In 12 cases, no return to work interview was recorded. In 11 of these there was no record of appropriate action being taken to address the cause of the absence or to support the employee. In one case, the relevant Fit Note was missing from the employee file, but had been recorded as seen by the manager. This issue is considered in more detail in 2.2.12 below.

Recommendation

All Services should be reminded of the Policy requirements in relation to recording absences and the management actions that need to be taken when an employee returns to work.

Service Response / Action

Agreed. Once the revised policy has been approved by Committee communications on the revisions and fresh guidance will be sent out to Services and placed on the Zone with accountability indicators being built into the new Human Capital Management System.

Implementation Date

March 2018

Responsible Officer

HR Team Leader, Policies & Performance

Grading

Significant within audited area

- 2.2.10 Information on Fit Notes is automatically interfaced from YourHR to the Payroll system PSe. The current guidance also advises managers to forward Fit Notes to Payroll for filing. Payroll run a monthly report from PSe, after the payroll is run, to highlight missing Fit Notes so, should a person remain off after the note expires, this is identified and a letter / e-mail is sent to the employee. The message advises them to speak with their manager, but the manager is not automatically informed. If there is no response, a second letter is sent to the employee advising that their pay will be stopped if appropriate medical cover is not provided. Payroll advised that one or two employee's pay is stopped each month.
- 2.2.11 If sickness details are not recorded promptly and accurately, absence records will be inaccurate; employees may not receive pay to which they are entitled; industrial injuries may not be recorded as required; and there is a cost to the Council for sending out reminder letters to the employee if certificates are not submitted. If the performance of those administering the policy is monitored this enables issues to be noticed and corrected and means failure to follow procedure can be challenged promptly.

Recommendation

HR should monitor administration of the Maximising Attendance policy so that Services and individuals can be given feedback where performance could be improved.

Service Response / Action

Agreed. A new role covering these responsibilities was envisioned but was put on hold anticipating the HR restructure scheduled for early 2018. In the interim, monitoring will be supervised by the HR Manager.

Implementation Date

April 2018

Responsible Officer

Interim HR Manager

Grading

Significant within audited area

- 2.2.12 In six of the absences reviewed above, copies of Fit Notes were missing from the employee files maintained by Payroll. Two of the managers concerned advised that they were unaware that they were required to do anything with Fit Notes other than input the details to YourHR. One advised that the missing note had been submitted to Payroll and should therefore be considered lost. All kept either copies or the originals in their files rather than destroying or returning them to the employee.
- 2.2.13 Payroll advised that as long as the key information has been input to YourHR by the recording manager, this was felt to be sufficient. Action would only be taken if there was no record of a Fit Note being seen. It is not clear from the guidance to managers if copy Fit Notes should be sent to Payroll or if it is sufficient merely to record the data in YourHR. Fit Notes contain information defined under Data Protection law as "sensitive personal data" and, as stated in the government guidance, are the property of the employee. If this data was lost or improperly disclosed, the Council could be subject to enforcement action by the Information Commissioners Office, including mandatory undertakings and monetary penalty, if it could not be shown that appropriate procedures were in place and that data had been properly secured. Guidance should therefore be given to managers to ensure that Fit Notes are handled and stored consistently and appropriately.

Recommendation

HR should ensure guidance is provided to line managers on Fit Notes to ensure that they are processed and filed consistently and appropriately.

Service Response / Action

Agreed. Once the revised policy has been approved by Committee fresh guidance will be sent out to Services and placed on the Zone. This will also be incorporated into Maximising Attendance training.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
March 2018	HR Team Leader, Policies & Performance	Significantly within audited area

2.3 Management Compliance

- 2.3.1 The MA policy highlights the importance of dealing robustly, sympathetically and confidentially with an employee who has been absent through illness, and gives clear guidance to the line manager of the procedures which must be followed in instances of short term, long term and repeated absences. It also highlights to employees the importance of regular attendance and the requirement to promptly notify an appropriate person in the event of an absence. However, at present there are no formal consequences for a lack of compliance with the policy by managers.
- 2.3.2 A sample of 10 managers from across the Council was selected from those managing the employees tested in section 2.2. They were contacted and asked to discuss their understanding of what the policy and procedures required of them. Training records were checked to establish whether and when managers had undertaken the OIL training provided, and their administration of the process relating to the specific absence was assessed.
- 2.3.3 Only 6 of the managers responded and they were all aware of the Policy. However, 3 stated that they did not feel confident they fully understood their responsibilities and were not sure if they had followed the procedure correctly. They advised they were not aware of all the existing resources, had not understood the guidance offered, or had received conflicting advice. Only 3 of the 10 had completed the OIL training provided.
- 2.3.4 If managers do not complete the training they are more likely to make errors and administer the process inconsistently, meaning that employees may not be given the support they require. This may affect employee retention and morale. In addition, if the process is not recorded through YourHR as required, performance statistics will not be accurate.

Recommendation

Once the training on the Maximising Attendance policy has been reviewed and updated as necessary, HR should promote its completion amongst managers.

HR should continue to work with Services to ensure that all staff are aware of how to access guidance and support when administering the Maximising Attendance Policy.

Service Response / Action

Agreed. Once the revised policy has been approved by Committee fresh guidance will be sent out to Services and placed on the Zone. Information provided on Maximising Attendance during Managers Induction training will also be reviewed. In the interim HR Business Partners will provide information, training and support to Service managers during monthly Maximising Attendance 'clinics' within their client services.

Implementation Date

March 2018

Responsible Officer

HR Team Leader, Policies & Performance

Grading

Significant within audited area

- 2.3.5 The Interim HR Manager advised that HR Business Partners offer to work with managers when YourHR flags up that trigger dates have been reached but that it is not within the power of the Service to enforce compliance.

Recommendation

HR should review compliance and determine how compliance rates can be monitored, reported and improved to ensure that the benefits of the Maximising Attendance Policy are fully realised.

Service Response / Action

Agreed. A new role covering these responsibilities was envisioned but was put on hold anticipating the HR restructure scheduled for early 2018. In the interim monitoring will be supervised by the HR Manager and is forecast to be encapsulated within the new Human Capital Management system once procured and launched.

Implementation Date

April 2018

Responsible Officer

Interim HR Manager

Grading

Significant within audited area

2.4 Occupational Health

- 2.4.1 Since 2015 the Council has contracted with OH Assist to provide occupational health services both to treat employee ill health and to offer preventative services such as flu vaccination programmes and health advice. Monitoring of this provision, including provider performance and employee take-up, is carried out by the Health and Safety team, who also monitor and report on occupational injuries.
- 2.4.2 A variety of resources are available to support staff, including the Employee Assistance Programme which offers access to counselling by phone, online or face to face; access to a workplace chaplaincy programme; access to telephone support from a self-help coach or therapist through the NHS Living Life service, signposted by the Employee Good health group; and advice and support for managers on supporting employees with mental health issues. Employees can also book free 15 minute Health Checks with nurses which provide personalised action plans to support good health. On the Zone there are a number of links to other free or discounted sources of support, wellness treatments such as massage and yoga, and information on healthy living and self-care.
- 2.4.3 Referrals to OH Assist are made by managers through an online portal where they can also access case updates and reports. The Interim HR Manager advised where possible referrals to OH should be discussed with the employee beforehand. The Maximising Attendance procedure states where requested, every employee will comply with any reasonable request to attend medical appointments with OH. If employees do not attend scheduled appointments their manager will be notified (via monthly Did Not Attend reports from the provider). Three missed appointments will lead to the referral being closed, as will a failure to respond to OH Assist within 8 days. Where an employee refuses to attend OH, the manager will have to determine how to progress the case without the required medical information. Where a sustainable return to work has not been possible despite all reasonable support being offered and the employee has progressed to a capability assessment, a decision on whether to dismiss the employee, or not, will need to be made following careful consideration of the facts.
- 2.4.4 The provision of occupational health and the employee assistance programme was reviewed and found to have followed procurement processes correctly, and to be regularly monitored and reported on for uptake by employees, cases processed, and anonymised feedback from users on outcomes. The current providers were found to be performing adequately under the terms of the contracts. Other sources of support for employees are readily available on the Zone through the Health and Safety page, which was last updated in March 2017. All links were tested and found to be working.

- 2.4.5 A report to the Corporate Health and Safety Committee in November 2016 stated that, in relation to OH referrals, Directorates should be carrying out investigation and analysis of root causes and implement controls to prevent a reoccurrence or new cases. In addition, for psychological issues, Quality of Working Lives risk assessments should be completed.
- 2.4.6 Within the Chief Executive, Corporate Governance and Communities, Housing and Infrastructure Directorates, a tool called the People Performance Report or Dashboard is in use. This provides information on a monthly basis to Service Management Teams on, amongst other matters, sickness absence, staff retention, and occupational health statistics. The report offers breakdowns and comparisons of data, such as top 5 reasons for absence and number of staff reaching absence triggers, and some analysis of trends, although the latter is a work in progress. Information in these reports is used to identify areas for improvement which has led to a campaign to improve employee understanding of infection prevention controls. A Health and Safety Plan for each Service is being put together which includes risk assessments for industrial injuries and Quality of Working Lives.
- 2.4.7 The Coordinators for Education and Children’s Services and Adult Social Work advised that a decision had been taken by their management not to use the People Performance Report although attendance management figures are reported to the Corporate H&S Committee and discussed in Directorate leadership team meetings. If attendance management is not reported consistently within Directorates, senior management will not have the same opportunities across the Council to investigate and address potential issues.

Recommendation

Services should ensure that Senior Management receive monthly reports on attendance management in a standardised format.

Service Response / Action

The Council has recently approved a new Target Operating Model which includes a Business Support Review and a Business Intelligence Unit. The exact remits and functions of these 2 units are yet to be determined, however the consistent production and analysis of data (such as sickness statistics) would potentially be of interest to both units for onward use by the other functions of the Council (as detailed in the Target Operating Model). It is proposed that this recommendation be considered through the governance structure for the Transformation Portfolio, as outlined in the report that Council considered on the 23 August 2017.

Implementation Date

April 2018

Responsible Officer

Head of HR (Interim)
Interim HR Manager

Grading

Significant within audited area

2.5 Monitoring & Reporting

- 2.5.1 Sickness absence data is recorded in YourHR and PSe, and in an Access database administered by HR which draws data from those systems. Each month reports are produced providing absence details for each Service and the Council as a whole. This includes the total number of days lost due to absence, a notional number of days per employee based on the total loss and total number of employees, and an analysis of the reasons for absence.
- 2.5.2 The reports are sent to Corporate Management Team and the Health and Safety team who produces their own quarterly reports including occupational ill health and injury statistics, and performance reports on the OH provider and counselling service, for the

Corporate H&S Committee. Copies of reports were obtained and were considered to be comprehensive and made on schedule.

2.5.3 Reports from HR were provided to the Finance Policy & Resources Committee from the introduction of the new policy in 2010. However, the frequency has been irregular and there have been none since April 2016. The Service advised that reports were made to managers and Directors as well as to Improvement Scotland (see below), and sickness statistics were included to some extent in Health and Safety reports to Committee.

2.5.4 Regular monitoring of staff sickness absence levels and reasons is an important part of efficient workforce planning, ensuring that issues affecting health and morale are quickly identified and addressed. It is important that Councillors are kept advised of the success or otherwise of policy implementation in order for them to carry out their role in developing policy and scrutinising Council activity.

Recommendation

HR should report absence monitoring statistics to Committee on a regular basis.

Service Response / Action

Agreed. Sickness Absence will be reported to Committee twice a year in February and August.

Implementation Date

February 2018

Responsible Officer

Interim HR Manager

Grading

Important within audited area

2.6 Trends

2.6.1 Monitoring figures for the last three financial years show an initial drop in June 2014 to below 9 days lost per employee (teaching and non-teaching) with the introduction of the new policy, which is sustained throughout 2014. However absences rose to between 9 and 10 days in the first quarter of 2015 and again to over 10 days between August 2015 and July 2016. From July 2016 the number drops to between 9 and 10 and this is sustained to the current period.

2.6.2 In September 2015 the Service advised the Finance, Policy & Resources Committee that the figures had risen due to an increase in long term sickness absence. As a result they intended to improve how long term sickness absence was dealt with and review existing preventative measures. The result of this review was an amendment to the process to improve Return to Work plans for long term absences. In addition, a new Occupational Health Provider was contracted with and instructed to manage sickness absence more proactively. In April 2016 the Service advised Committee that a sustained effort had been made to target causes of long term absence and this had met with some success; it was their intention to begin targeting short term absences in the hope of a similar outcome. Absence levels have fallen since that point although not to previous levels.

2.6.3 The Improvement Service (IS) publishes benchmarking data for the Local Government Benchmarking Framework, including absence statistics. Per the latest figures available for comparison (for 2015/16) the average number of days lost per non-teaching employee for the Council is slightly above the average for Scottish Councils (12 compared to 10.6). However, there has been a significant improvement since 2011 (13 compared to 10.4). The figures for 2016/17 were sent to the IS by the Service in June 2017 and show a small drop (from 12 to 11.6), although figures for Scotland as a whole will not be available for comparison until January 2018. The Interim HR Manager advised, that following consultation with the Improvement Service, it has been established that absence has been incorrectly calculated. New guidance has been issued by the Improvement Service as a

result, which the Interim HR Manager anticipates will have the effect of reducing Council absence by approximately 1 day per employee, and will bring the Council's method of absence calculation in line with other local authorities, who have been using this method previously.

- 2.6.4 The latest comparison figures show days lost to absence per teaching employees is less than the Scottish average (5.7 to 6.1). This is a reversal of the situation in 2011 (6.7 to 6.2). However the rate has risen slightly for 2016/17, to 6.1.
- 2.6.5 In summary, levels of absence have risen since the MA policy was initially introduced but action has been taken to address this and when the policy is being monitored and proactively administered it can be seen to be having a positive effect.

AUDITORS: D Hughes
A Johnston
L Jarvis

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1806 – Corporate Landlord Responsibilities
REPORT NUMBER	IA/AC1806
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Corporate Landlord Responsibilities.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Corporate Landlord Responsibilities.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1806 – Corporate Landlord Responsibilities.

9. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

Internal Audit Report

Communities, Housing and Infrastructure

Land & Property Assets

Corporate Landlord Responsibilities

Issued to:

Bernadette Marjoram, Interim Director of Communities, Housing & Infrastructure

John Quinn, Head of Land & Property Assets

Fraser Bell, Head of Legal & Democratic Services

Steven Whyte, Head of Finance

Stephen Booth, Asset Management Manager

Ian Cowling, Hard FM Manager

Malcolm Brown, Contract Manager (Public Buildings)

Mai Muhammad, Energy Manager

External Audit

EXECUTIVE SUMMARY

Aberdeen City Council as a Corporate Landlord has accountability to ensure that all buildings under its control comply with the appropriate statutory, regulatory and corporate standards.

As at June 2017 the Council had over 300 non-housing public properties with Corporate Landlord Responsibilities and therefore cyclical maintenance requirements. In 2016/17 the cyclical maintenance for Corporate properties cost just over £972,000.

The objective of this audit was to ensure that the Council has systems in place that provide assurance over compliance with the legal requirements in relation to its Corporate Landlord role for these properties.

Although there are working practices in place, some of these have still to be formalised, and others need to be better aligned with corporate health and safety documents. Arrangements for ensuring external and internal tenants are compliant also need to be clarified. The Service plans to address these points by June 2018.

The continuing need for a client / contractor split of service management and operational delivery is still to be determined following changes to the Council's organisational structure.

In general comprehensive records are maintained, though due to changes in systems and some minor errors identified improvements have been recommended and the Service will review options for doing so.

1. INTRODUCTION

- 1.1 Aberdeen City Council as a Corporate Landlord has accountability to ensure that all buildings under its control comply with the appropriate statutory, regulatory and corporate standards.
- 1.2 Landlords must make sure that the equipment for supplying water, gas and electricity is kept in safe working order. Safeguards must be put in place over fire safety, lift maintenance, and the management of asbestos. In addition, public buildings in excess of a specified size must display current Energy Performance Certificates.
- 1.3 As at June 2017 the Council had over 300 non housing public properties with Corporate Landlord Responsibilities and therefore cyclical maintenance requirements. In 2016/17 the cyclical maintenance for Corporate properties cost just over £972,000.
- 1.4 The objective of this audit was to ensure that the Council has systems in place that provide assurance over compliance with the legal requirements in relation to its Corporate Landlord role for these properties.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Quinn, Head of Land & Property Assets.

2. FINDINGS AND RECOMMENDATIONS

2.1 Cyclical Maintenance Process

- 2.1.1 Cyclical maintenance is managed and delivered by two elements of the Land & Property Assets Service within Communities, Housing & Infrastructure: Asset Management acts as the client Service, identifying overall requirements and managing service delivery. Operational delivery is provided by Building Services, acting as a contractor. Data relating to property assets and maintenance activity is held on the Confirm system.
- 2.1.2 Asset Management present Building Services with a list of all operational properties detailing the statutory and any additional cyclical maintenance required. Building Services deliver this maintenance, ensuring that the activities are carried out in compliance with statutory requirements. Where Building Services do not have the necessary resources or expertise to carry out the required works, they use a range of contracted specialist contractors.
- 2.1.3 Following cyclical maintenance activities Building Services are responsible for ensuring that all relevant test records and compliance certificates are available in a shared drive which Asset Management has access to. Asset Management uses this data to demonstrate compliance with the contract and statutory maintenance requirements.
- 2.1.4 Building Services manage and monitor the performance of their external contractors via spreadsheets of key performance indicators (KPI's). These record whether services have been delivered within 30 days of target date and whether the job has been invoiced within 30 days of the completion date have been met. The spreadsheet analysis shows the amount of jobs done per month and year along with a percentage where appropriate that the contractor has not met the required standards. Where targets are not met these are brought up at monthly review meetings and explanations sought.
- 2.1.5 Invoices received for specified activities are checked and passed to the property inspector for approval. If approved these are passed to the Assistant Contract Manager for payment authorisation and updated on Confirm with budget charge codes. A Confirm report is passed to the E-Finance Team for payment.

2.2 Written Procedures / Policies

- 2.2.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.2.2 A Service Level Agreement was developed, though this was not formally implemented prior to the Services being assumed into Land & Property Assets in 2014/15. Asset Management has a draft Land & Property Assets Compliance Monitoring Procedure which although current has yet to be formally agreed.
- 2.2.3 Building Services has clear procedures and process maps in place for each of the cyclical maintenance activities. Reliance is however placed on Asset Management to instruct that these activities should take place. In the absence of formal procedures or a finalised Service Level Agreement, there is a risk of activities not being scheduled as required to meet the Responsibilities of the Council.

Recommendation

The Service should formalise the procedures used to demonstrate compliance with its Corporate Landlord Responsibilities and other cyclical maintenance activities.

Service Response / Action

Agreed. Timing of the action to formalise procedures will be dependent on implementation of digital systems rationalisation.

Implementation Date

June 2018

Responsible Officer

Head of Land & Property Assets

Grading

Significant within audited area

- 2.2.4 As noted above Asset Management adopts a commissioning role, with Building Services carrying out and applying specified directives. This might represent an additional process to the minimum requirement, given delivery is within one Service.

Recommendation

The Service should review whether management of cyclical maintenance could be delegated to one or other Service, or the two Services combined.

Service Response / Action

Agreed. This will be reviewed as part of the Council’s structural changes.

Implementation Date

March 2018

Responsible Officer

Head of Land & Property Assets

Grading

Significant within audited area

- 2.2.5 The current managers work to service procedures which require to be referenced to the Corporate Health and Safety Policies on Gas Safety, Fire Safety, Fire Safety Management, Management of Legionella Bacteria, Asbestos Safety and the Corporate Procedure on the inspection and Maintenance of Portable Electrical Appliances.

- 2.2.6 This can lead to some elements of these policies not being applied. For example, in 3 cases examined Services occupying the buildings did not maintain an inventory of electrical items as required under the Corporate Procedure “Inspection and Maintenance of Electrical Portable Appliances”. There is therefore a risk that not all equipment may have been presented and tested, though the other processes in place including the testing regime itself should ensure statutory compliance. It is important that the Corporate and Service processes are aligned to avoid errors or misunderstanding over their operation.

Recommendation

Asset Management should work with the Health & Safety Team to align Service and Corporate Policies.

Service Response / Action

Agreed.

Implementation Date

March 2018

Responsible Officer

Head of Land & Property Assets

Grading

Significant within audited area

- 2.2.7 The Service has trained and registered employees to produce Energy Performance Certificates (EPC) for the Council’s non-housing property portfolio. There are 2 employees completing EPC’s, trained and registered with an appropriate accreditation body. Each has their own list of EPC’s due and completed, as the requirements are different for Council occupied and leased out properties, though Asset Management does

not hold a single complete list. Whilst for commercially let properties there is assurance over EPC completion, as this is checked by solicitors prior to entry, records indicate that further work is required to fully meet the requirements which changed in 2015 to require additional public buildings to have an EPC.

- 2.2.8 At 31 March 2016 there were 169 Public Buildings occupied by the Council over 250m², of which 117 were compliant and 52 non-compliant. It was intended to instigate a programme to achieve full compliance within 12-18 months, though there is no forward plan set out to meet this target. At 31 July 2017 (16 months) the Service has still to complete EPCs for 20 buildings, presenting a risk of non-compliance.

<u>Recommendation</u>		
The Service should set out a programme and procedures for ensuring EPC compliance, then coordinate and monitor progress with its implementation.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
March 2018	Energy Manager	Significant within audited area

2.3 Safety Certificates / Testing

- 2.3.1 Internal Audit reviewed 11 different properties to ensure they were compliant with relevant requirements. All had the appropriate Corporate Landlord compliant tests and certificates in place.

- 2.3.2 In some instances however the contractors did not get the appropriate paperwork signed by a representative of the Council, or had not signed it themselves, to confirm that the work had taken place at the dates, times and locations indicated.

Certificates reviewed	Council not signed	Contractor not signed
Emergency Lighting (105)	14	3
Fire Alarms (37)	8	-
Fire Fighting Equipment (8)	2	1
Gas Safety (7)	1	-

- 2.3.3 Although the certificates and log books indicate activities have taken place, signatures provide additional assurance and serve to demonstrate that an appropriate and competent person has undertaken the work.

<u>Recommendation</u>		
The Service should remind all Contractors that all paperwork should be signed by the engineer and a representative of the Council.		
<u>Service Response / Action</u>		
Agreed. The Service is however considering implementation of electronic workflow systems which would negate the requirement for signatures.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
November 2017	Head of Land & Property Assets	Important within audited area

- 2.3.4 There were 9 establishments within the sample for which Portable Appliance Testing (PAT) was required. An annual full test of all equipment was carried out in each case, which is more than required under regulation.
- 2.3.5 The risk of Legionella in water supplies is increased within specified temperature ranges. A monthly temperature spreadsheet is maintained by the Service, however at June 2017 this only recorded readings up to February 2017 due to lack of resources. This spreadsheet has now been updated.
- 2.3.6 Asbestos data is held on the Modus system, which has only been introduced in the last year and not all data which pre-dates the system has yet been transferred into it, due to lack of resources within Asset Management. There was also an instance where a follow up of an Asbestos Management Survey was not completed within 12 months as recommended by HSE and the engineer. Asset Management advised that this was prior to using the Modus system, and a re-inspection has since been undertaken. If data is not up to date on the system, and reliance is being placed on it to inform contractors (internal and external) of the risk of asbestos in areas in which they carry out works, there is a risk of inadvertent exposure, presenting a reputational risk to the Council.
- 2.3.7 There were 2 instances where the summary spreadsheet of completed EPC's did not match the information on the actual EPC; 1 showed the wrong date and 1 showed the wrong EPC rating.
- 2.3.8 It is important that all information is stored accurately and up to date, to reduce the chances of any duplication or something being missed.

Recommendation

The Service should ensure data regarding its Corporate Landlord Responsibilities is maintained centrally, accurately and up to date.

Service Response / Action

Agreed. The Service is committed to investing in the most appropriate systems to manage its compliance data.

Implementation Date

June 2018

Responsible Officer

Head of Land & Property Assets

Grading

Significant within audited area

- 2.3.9 The Service provided copies of fixed electrical installation tests which had taken place. Whilst it was able to demonstrate that these had taken place within the last 5 years as required, in 7 of 9 cases where a test was required and completed the results were unsatisfactory – with “potentially dangerous” conditions identified, and with a recommendation that the next review should be within 5 years conditional on these defects being rectified. The Service has provided evidence to demonstrate that defects had been rectified within a reasonable timeframe in 3 of the 7 properties. Although defects in other properties were addressed, works orders were not raised promptly on the system following the tests. If defects are not rectified timeously, the Council could be considered in breach of its duty of care to users of these buildings.

Recommendation

The Service should ensure that critical faults are rectified promptly and actions documented.

Service Response / Action

Agreed. The Service recognises that procedures need to be tightened up to ensure defects are prioritised and registered as such. A review of procedures and response

times will be undertaken.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2017	Head of Land & Property Assets	Significant within audited area

- 2.3.10 The Service, taking advice from Legal & Democratic Services, advised that the terms of the Council's commercial leases typically provide that all statutory maintenance responsibilities are the responsibility of the tenant, therefore there is no need to identify statutory responsibilities separately. Therefore, Corporate Landlord Responsibilities are not considered applicable to leases of Council property to external tenants. The examples of lease conditions provided by the Service contain clauses to this effect.
- 2.3.11 For some leases, including Community Centres, the Service has elected to mitigate against potential risks and deal with some or all of the statutory requirements directly. The Service has indicated that these arrangements are in the process of being reviewed.
- 2.3.12 In one instance a Grounds Maintenance Depot had no record of tests completed. Building Services undertake testing of equipment for various Services, including Grounds Maintenance, Roads and Building Service depots, on instruction and receipt of a financial code. Although these may be run as trading operations, they are not external tenants, and Internal Audit anticipated that corporate responsibility for conducting tests, and recording compliance, would rest with Land & Property Assets.
- 2.3.13 Leased in operational property will fall within the council's statutory maintenance schedules.

Recommendation

The Service should ensure it has assurance that all property in which the Council has an interest is statutorily compliant.

Service Response / Action

Agreed. A programme of work clarifying leasing arrangements with internal and external tenants is ongoing.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2018	Head of Land & Property Assets	Significant within audited area

2.4 Monitoring

- 2.4.1 Monitoring of KPI's by Building Services is well presented, including data on delivery of services within 30 days of the target date, and invoicing within 30 days of delivery. However, reliance is placed on contractors to update and return this data.
- 2.4.2 There is no written procedure outlining how the KPI returns are processed or any checks as to their accuracy. In many cases the spreadsheets indicated that targets were not being met, with results as low as 15% in some cases, though substantial subsequent improvements were then shown (increasing to 86% in this instance). The Service has stated that this was due to a system error, which has since been corrected, rather than work being subject to unacceptable delays. Delays are categorised as either the Council or Contractor's issue. Delays could impact on statutory compliance, depending on how far in advance statutory checks are scheduled.
- 2.4.3 Although current practice may be considered administratively efficient for the Service, there is a risk in placing reliance on contractors to provide data on their own performance,

as there is an incentive for them to present positive data. If the Service can update its records (e.g. on Confirm) with services delivered and invoiced, then it should be able to generate reports from the system to manage contracts by exception, and independently verify the KPI's against which it measures its contractors. It should already have this data in order to match services invoiced against those ordered and delivered.

Recommendation

The Service should review the process for obtaining assurance that cyclical maintenance services have been delivered as planned for the purposes of verifying payments, contractors' performance, and statutory compliance.

Service Response / Action

Agreed. A review will be initiated with a view to developing an action plan with implementation targets.

Implementation Date

March 2018

Responsible Officer

Head of Land & Property Assets

Grading

Significant within audited area

- 2.4.4 Asset Management carries out checks on a proportion of activities undertaken by or on behalf of Building Services. The draft Land & Property Assets Compliance Monitoring Procedure sets out a requirement for a check of 15% of the work carried out to ensure work was carried out within 30 days of the set target, and evidence has been filed within 4 weeks. As discussed in section 2.2 above, this has not been formally implemented, and may affect the efficiency of the operation.

AUDITORS: D Hughes
C Harvey
J Galloway

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Report AC1803 – Health & Safety - SSERC
REPORT NUMBER	IA/AC1803
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Health and Safety – SSERC.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Health and Safety – SSERC.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1803 – Health and Safety – SSERC.

9. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Education & Children's Services

Health & Safety - SSERC

Issued to:

Gayle Gorman, Director of Education and Children's Services
Fraser Bell, Head of Legal and Democratic Services
Euan Couperwhite, Head of Policy, Performance & Resources
Steven Whyte, Head of Finance
Morven Spalding, Interim Head of HR
Mary Agnew, Health, Safety & Wellbeing Manager
External Audit

EXECUTIVE SUMMARY

The Scottish Schools Education Research Centre (SSERC) is a Local Authority shared service providing support to the 32 Scottish Local Authorities. SSERC provide Health & Safety advice, Codes of Practice, guidelines and training aimed at school science departments and faculties.

The objective of this audit was to consider whether arrangements in place within the Council adequately manage risk responsibility in relation to hazard information, handling and disposal of chemicals, safety in microbiology, material of living origin and routine fume cupboard testing.

The audit has identified that the Service has not detailed the training that is required for staff dealing with issues covered by SSERC guidance and the type of training undertaken / completed across the Service is inconsistent. The management of hazardous substances varies between locations whilst not all sampled schools provided the requested information.

Recommendations have been agreed regarding: training to ensure compliance with SSERC; undertaking of risk assessments; records maintained and disposal of chemicals; use of recirculatory fume cupboards; portable electrical appliance visual inspection and testing records; and, the Service providing assurance where schools have not provided the requested information.

1. INTRODUCTION

- 1.1 The Scottish Schools Education Research Centre (SSERC) is a Local Authority shared service providing support to the 32 Scottish Local Authorities. SSERC provide Health & Safety advice, Codes of Practice, guidelines and training aimed at school science departments and faculties. SSERC's services are available to Elected Members and Officers of Local Authorities, Teachers, and Technicians.
- 1.2 The objective of this audit was to consider whether arrangements in place within the Council adequately manage risk responsibility in relation to hazard information, handling and disposal of chemicals, safety in microbiology, material of living origin and routine fume cupboard testing.
- 1.3 The primary legislation covering occupational health and safety is the Health and Safety at Work etc Act 1974 (the Act). It sets out the general duties which employers have towards employees and members of the public, and which employees have to themselves and each other.
- 1.4 The Management of Health & Safety at Work Regulations 1999 make more explicit what employers are required to do to manage health and safety under the Act, particularly in relation to risk assessments, while the Control of Substances Hazardous to Health (COSHH) Regulations 2002 sets out employer statutory duties in relation to substances hazardous to health, including fumes, chemicals, and biological agents. SSERC Codes of Practice and guidelines have been developed in accordance with these regulations.
- 1.5 Procedures, risk assessments, training records and other relevant documentation, relating to a sample of secondary schools, were reviewed to determine adequacy.
- 1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made has been agreed with Euan Couperwhite, Head of Policy, Performance and Resources.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

2.1.1 Comprehensive written procedures and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.2 SSERC has published Codes of Practice on Safety in Microbiology and Material of Living Origin. SSERC has also issued 'Secure Your Chemicals' guidance, prepared in collaboration with the Health and Safety Executive, covering purchase, storage, use and disposal of chemicals, and Routine Fume Cupboard Testing guidance.

2.3 The SSERC website is a source of additional health and safety guidance. The 'Uses & Control Measures' page of the website contains experimental procedures for a range of chemicals used in the school curriculum, outlining control measures to minimise risks to health. The Hazardous Chemicals section of the website provides data on potentially hazardous chemicals, covering associated hazard information, incompatibility, handling, storage, spillage, disposal and remedial measures. SSERC also produce additional guidance, as required, in regular bulletins and newsletters.

2.3.1 Ten schools were asked to provide copies of policies and procedures covering hazard information, handling and disposal of chemicals, safety in microbiology, material of living origin and fume cupboard testing. Five schools have still to respond. Four of the five schools that responded advised that copies of the relevant SSERC Codes of Practice/Guidance are held electronically in a shared drive and in some instances also as hard copies in the Technician Base. They are updated when new versions are released by SSERC and staff are advised of such updates through bulletins and department meetings.

2.4 Training

2.4.1 Health & Safety training is provided by SSERC. The SSERC training planner for April 2017 – March 2018 on the SSERC website includes health and safety courses aimed at Teachers and Technicians including: Microbiology in Schools, covering safety in microbiology at a basic level; Health and Safety Risk Assessment and Health & Safety Update also covering risk assessments.

2.4.2 A series of more advanced SQA accredited SSERC courses is also available, mainly aimed at Technicians. These include the Chemical Handling course covering safe handling and disposal of chemicals used in schools and Level 3 Safety in Microbiology for Schools, required to prepare materials for level 2 and level 3 work with micro-organisms, with levels relating to the educational stage of learners and risks associated with the work. There are no SSERC training courses available specifically for Materials of Living Origin, Hazard Information or Routine Fume Cupboard Testing.

2.4.3 The Council does not centrally record or monitor completion by school staff of SSERC training because, although recommended, the SSERC training is not mandatory. It is up to each school whether and how, completion of SSERC training is recorded and monitored. Ten Secondary Schools were asked how training completion by Science Teachers and Technicians is ensured and monitored. Five schools have still to respond. However, this has not limited the scope of this audit as the findings from those schools that did respond were sufficient on which to draw conclusions.

- 2.4.4 Based on the responses received it was concluded that:
- There is no Council standard detailing the expected training requirements for staff regarding the areas under review.
 - Training requirements / needs are not being recorded or monitored centrally within schools.
 - Course completion certificates are being retained by individual staff members rather than being held centrally in schools.
 - Courses are not being routinely completed by all relevant staff.
 - Staff need to be released from school to undertake SSERC training which can cause issues within the school.
- 2.4.5 In addition to the SSERC training, Council training courses are available covering Control of Substances Hazardous to Health (COSHH) and Risk Assessment. When school staff are required to complete COSHH Assessments, they should complete the COSHH training, although it is not mandatory. Risk Assessment training is also not mandatory.
- 2.4.6 The Risk Assessment course is aimed at all employees with supervisory responsibilities who are nominated to undertake risk assessments. This course provides a basic grounding in risk assessment and will assist employees in carrying out a "suitable and sufficient" risk assessment according to the course descriptor on the Zone intranet General Health, Safety and Wellbeing Workshops web page. The COSHH course is aimed at employees nominated for undertaking COSHH assessments within their Service and likely to come in contact with hazardous or potentially hazardous substances. Despite not being mandatory these courses are desirable since the content is relevant to all Science Teachers and Technicians.
- 2.4.7 A sample 13 science technicians across 11 Academies and 37 Biology and Chemistry teaching staff (including 10 principal teachers) across 12 Academies was selected to establish attendance at the COSHH and Risk Assessment training courses. A teacher, two principal teachers and 3 technicians at 5 Academies attended the COSHH training course, with 2 attending in March 2016 and the rest attending in February 2011 or earlier. Two teaching staff (including a principal teacher) and 5 technicians at 6 Academies attended the Risk Assessment course, with the most recent attendance in November 2015. The remaining teachers and technicians had not attended the courses.

Recommendation

The Service should determine the training that is considered necessary for all appropriate staff in relation to the areas under review, and put a timetable in place to ensure that the required training is completed.

SSERC, COSHH and Risk Assessment training for Science Teachers and Technicians, should be recorded centrally including renewal dates for monitoring purposes.

Service Response / Action

Part 1: Agreed. A Skills and Training Matrix covering these areas will be developed.

Part 2: Agreed.

Implementation Date

Part 1: October 2017
Part 2: November 2017

Responsible Officer

Education Support Officer
(Senior Phase)

Grading

Significant within audited area.

2.5 Risk Management

2.5.1 The Management of Health & Safety at Work Regulations 1999 (regulation 3) requires assessments of risk, that affect employees and non-employees as a result of the organisation's activities. A risk assessment must be suitable and any significant findings should be recorded in writing.

2.5.2 Lists of Risk Assessments covering Hazard Information, Safety in Microbiology, Handling & Disposal of Chemicals, Material of Living Origin and Routine Fume Cupboard Testing were requested from ten schools. Five schools have responded to date and 3 lists of Risk Assessments have been provided. Copies of specific Risk Assessments were then requested for the 3 Academies that provided lists. Two Academies provided the detailed risk assessments whilst one has yet to provide these. Of the two which didn't provide lists, one Academy confirmed that it does not have risk assessments in place for the areas under review, whilst a list of risk assessments is outstanding from the remaining Academy. Again, the failure of some schools to respond has not limited the scope of this audit as the findings from those schools that did respond were sufficient on which to draw conclusions.

2.5.3 Based on the responses received it was concluded that:

- SSERC Codes of Practice on Safety in Microbiology and Material of Living Origin are used as risk assessments by schools. However, the availability of SSERC Codes of Practice in schools, does not demonstrate risks associated with practical activities have been adequately considered and mitigated.
- Routine Fume Cupboard testing is not risk assessed as testing is carried out by an external contractor.
- Risk assessments were seen to be in place for the Handling and Disposal of Hazardous Chemicals at two Academies and were detailed on a list of risk assessments for a third Academy, but have yet to be provided
- Some Risk Assessments were last reviewed over twelve months ago, with the majority of risk assessments at one Academy last reviewed in 2013.

Recommendation

Risk Assessments should be reviewed every 12 months or sooner if no longer valid and review dates should be recorded centrally on a register of risk assessments.

Hazard information should be recorded on the central list of school risk assessments.

Risk Assessments / COSHH Assessments should be prepared for all Biology and Chemistry practical activities, covering Hazard Information, Safety in Microbiology, Handling & Disposal of Chemicals and Material of Living Origin as appropriate.

Service Response / Action

Agreed.

Implementation Date

December 2017

Responsible Officer

Service Manager, Assets
& Finance

Grading

Significant within audited
area.

2.5.4 SSERC has produced specific guidance on the storage of the chemical 2,4 dinitrophenylhydrazine due to the risk of explosion under specific circumstances. It was established that one Academy has this chemical in stock. The school has received the SSERC guidance and verified that the chemical has been stored correctly. The condition of the chemical was assessed on 4 April 2017 and is awaiting uplift, as indicated on the chemical record form maintained. Two other Academies also had 2,4 dinitrophenylhydrazine in stock according to their chemical inventories. It was not possible

to determine if the chemicals held were stored correctly based on the inventories provided. Chemical inventories are outstanding from six Academies.

2.5.5 The Assets and Estates Manager advised that an annual chemical collection from schools has been undertaken since 2015, with the Assets and Estates Manager requesting details of chemicals that schools wish to dispose of and making arrangements with a suitable company for collection and disposal. The next annual collection is being arranged for August 2017.

2.5.6 Further SSERC Guidance has been issued covering the use of organic waste bottles, recommending that schools do not top up organic waste bottles piecemeal, mixing chemicals, as this can cause a chemical reaction resulting in the bottle heating up and shattering. One Academy advised that while organic waste bottles are kept and topped up as required, halogenic chemicals are kept separate. However SSERC bulletin 254 states there is always the possibility something inappropriate will be poured into an organic waste bottle.

Recommendation

The school should consider alternative means of disposing of organic waste in line with recommendations in SSERC Bulletin 254.

All schools should be reminded of the correct means of disposing of organic waste in line with SSERC Bulletin 254.

Service Response / Action

Part 1: Substances requiring disposal by uplift will be collected in a bottle (no more than 250ml) which is held in the flammable store. None of these substances react with each other to cause pressure build up, however a risk assessment will be carried out. All halogenated solvents/compounds will still be collected and stored for uplift as per SSERC guidance. Risk assessments will be reviewed and, where necessary, updated to include these new guidelines. 'Disposal' help cards will be included in relevant kit trays and these will be brought to the class teacher's attention.

Part 2: Agreed.

Implementation Date

Part 1: September 2017

Part 2: October 2017

Responsible Officer

Supervisory Technician

Education Support Officer
(Senior Phase)

Grading

Significant within audited area.

2.6 Measurement & Reporting

2.6.1 Ten schools were asked how compliance with the SSERC Codes of Practice/Guidance is measured and reported. Five schools have replied to date. While the schools appear to be aware of and understand SSERC requirements, the schools do not generally measure or report compliance.

2.6.2 In accordance with SSERC guidance Secure Your Chemicals, a record of chemicals in stock is maintained and updated as and when chemicals are used up, disposed of or received. Technicians also complete an annual stock take of chemicals in storage. Stock takes have been provided by 4 schools to date, all undertaken within the last year.

2.6.3 The format and data recorded on Academies' chemical inventories varied with some only recording the name and location of chemicals, whereas others included more detail in a clearer format, including quantities of chemicals in stock and hazard information symbols

as well as the location of chemicals. The latter provides a clearer understanding of the amount and nature of chemicals being stored. Since chemical inventories are maintained by schools in varying formats, this reduces the understanding of the nature and quantity of chemicals being stored.

- 2.6.4 One Academy provided chemical record forms indicating if chemicals had passed a review of condition and storage. The chemical inventories reviewed did not include this information.

<u>Recommendation</u>		
A standardised chemical stock list including chemical location, quantity, hazards, immersion test results, condition test results, date of last tests, date tests are due, and disposal dates should be maintained centrally.		
Academies should be advised of the requirement to review their chemical stock and update the central list.		
<u>Service Response / Action</u>		
Agreed. A shared database will be maintained for Academies to update.		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
November 2017	Assets & Estates Manager	Significant within audited area.

- 2.6.5 According to paragraph 4.2.5 of the SSERC Safety in Microbiology Code of Practice, microbiology culture records should be prepared and maintained. Confirmation that the SSERC Code of Practice was being followed and if so how this was being monitored and evidenced, was requested from ten Academies. The records for one Academy were provided to Internal Audit, having been prepared by one of the Science Technicians. The records had not been checked by a Supervisor. One school which stated they log cultures and sub-cultures as required. Two confirmed they do not monitor or evidence compliance with the Code. A final Academy confirmed risk assessments were carried out for each advanced higher project and these were monitored / checked by a teacher trained in Microbiology level 3, however no reference was made to culture records being maintained. Five Academies have yet to respond.

<u>Recommendation</u>		
The Service should ensure that schools comply with the SSERC Safety in Microbiology Code of Practice.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2017	Assets & Estates Manager	Significant within audited area.

2.7 Routine Fume Cupboard Testing

- 2.7.1 Under section 2 of the Health and Safety at Work Act there is a legal requirement for the employer to provide and maintain safe equipment and safe systems of work. Section 9(2)(a) of the COSHH Regulations 2002 requires local exhaust plant, of which ducted fume cupboards are a subset, be tested at least once every 14 months.

2.7.2 Routine fume cupboard testing is carried out by external contractors. School staff are not trained in fume cupboard testing. The schools do not receive copies of the external contractor testing results unless they specifically request them. Daily visual checks should still be carried out in-house by school staff. This includes checking there is no damage to the glazing, sash and structure, there is an inward air flow as indicated by small streamers fastened on the bottom of the sash and no damage to the electrical and gas services. The Assets and Estates Manager advised that repairs to fume cupboards are the responsibility of Academies, paid from Academy devolved budgets.

2.7.3 Science Technicians at two Academies advised that weekly visual checks are carried out and the fume cupboards would not be used if they did not look to be in safe, working order. No record is kept of the visual checks. One Academy takes airflow measurements once per month.

Recommendation

Training should be provided to school staff required to undertake daily visual checks of fume cupboards and regular airflow measurements to ensure these are undertaken in line with SSERC Routine Fume Cupboard Testing guidance.

Service Response / Action

Agreed. SSERC will be asked to deliver this training.

Implementation Date

March 2018

Responsible Officer

Assets & Estates
Manager

Grading

Significant within audited
area.

2.7.4 SSERC guidance on Routine Fume Cupboard Testing states ducted fume cupboards are inherently much safer than recirculatory fume cupboards and should always be used in preference to the latter. Clarification was sought from all schools selected as to whether or not any recirculatory fume cupboards are in use. Two Academies confirmed that recirculatory fume cupboards are in use. Both schools also have ducted fume cupboards and all fume cupboards are tested by the contractors responsible for routine fume cupboard testing. The Assets and Estates Manager for Education and Children's Services has advised there is no programme for replacement of recirculatory fume cupboards.

2.7.5 Testing was undertaken by the above contractors of recirculatory fume cupboards in place at four Academies in July and August 2017. The reports state that the examination and tests were undertaken by a competent person and meet the requirements of COSHH Regulation 9(2). The condition of one of the two fume cupboards held at one Academy was deemed unsatisfactory.

2.7.6 The report for one Academy showed airflow measurements which exceeded the SSERC Routine Fume Cupboard testing recommended range of 0.3 to 0.5 metres per second (i.e. 0.55 metres per second). In addition, a smoke test to test containment did not appear to have been carried out for any of the recirculatory fume cupboards, and in cases where fume cupboards were not mounted to worktops, cupboard restraining wires were absent. It is therefore unclear if the recirculatory fume cupboards in use are fit for purpose.

Recommendation

The Service should establish if recirculatory fume cupboards are fit for purpose and consider decommissioning and replacing them as required with ducted fume cupboards.

Service Response / Action

Agreed.

<u>Implementation Date</u> December 2017	<u>Responsible Officer</u> Assets and Estates Manager	<u>Grading</u> Significant within audited area.
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2.8 Portable Appliance Testing (PAT)

- 2.8.1 Portable appliance testing (PAT) is the term used to describe the examination of electrical appliances and equipment to ensure they are safe to use. Most electrical safety defects can be found by visual examination but some types of defect can only be found by testing. The Electricity at Work Regulations 1989 require that any electrical equipment that has the potential to cause injury is maintained in a safe condition. However, the Regulations do not specify what needs to be done, by whom or how frequently.
- 2.8.2 The Health and Safety Executive advises visual inspections are an essential part of the process, with a relatively brief user check based on simple training and a brief checklist forming a useful part of an electrical maintenance regime. The Council offers a 1 day workshop on Portable Appliance Testing for employees who are required to use electrical appliances and are nominated by their Service to be responsible for PAT in their area of work. The course covers visual inspection and testing. Visual inspection checklists are not maintained by Science Teachers and Technicians.
- 2.8.3 A sample of 13 Science Technicians across 11 Academies and 37 Biology and Chemistry teaching staff (including 10 principal teachers) across 12 Academies was selected to establish attendance at the PAT course. Four Technicians attended the course, the most recent in November 2015 and no Science Teachers have attended the course.

<u>Recommendation</u>		
Consideration should be given to introducing checklist based visual inspections by Science Teachers and Technicians, of portable electrical appliances, prior to use by pupils.		
Faults and required action identified on visual inspections should be recorded on the school's PAT schedule and on the affected equipment, identifying required repairs or the need for disposal.		
Training should be provided to all staff required to undertake testing or visual inspections of portable electrical appliances.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u> November 2017	<u>Responsible Officer</u> Service Manager, Assets & Finance	<u>Grading</u> Significant within audited area.

- 2.8.4 PAT testing at Academies of portable electrical appliances is carried out by the Academy's Science Technician. PAT testing spreadsheets were provided by two Academies and appliances had been tested within the last year. A response is outstanding from the other Academies, so no assurance can be provided regarding these.
- 2.8.5 Whilst the PAT testing spreadsheets provided were updated to reflect the most recent testing that had taken place, spreadsheets used differed between schools. One Academy's spreadsheet recorded test dates and retest dates at an appliance level whereas the other recorded passes at an appliance level for the date the testing took place with no future retest date. Including the retest date and whether a pass was obtained for

testing undertaken is preferable as this helps to ensure future PAT testing takes place as required and avoids the use of unsafe electrical equipment.

Recommendation

The Service should provide assurance regarding schools' PAT testing regimes.

PAT testing spreadsheets should be reviewed and standardised, including retest dates and results of testing at an appliance level.

Service Response / Action

Part 1: Agreed.

Part 2: Agreed.

Implementation Date

Part 1: September 2017

Part 2: September 2017

Responsible Officer

Service Manager, Assets
& Finance

Grading

Significant within audited
area.

AUDITORS: D Hughes
A Johnston
A Mitchell

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 September 2017
REPORT TITLE	Internal Audit Reports – Follow-up of Agreed Recommendations
REPORT NUMBER	IA/17/015
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of progress made by Services with implementing recommendations that were agreed in Internal Audit reports issued since April 2015.

2. RECOMMENDATION

- 2.1 The Committee is requested to review, discuss and comment on the issues raised within this report and the attached appendices.

3. BACKGROUND / MAIN ISSUES

- 3.1 Appendices A and B show progress made by Services with completing agreed Internal Audit recommendations, based on assurances received from officers tasked with their implementation and independent checks where appropriate. Where all recommendations contained in individual reports issued before 1 April 2017 have been completed, these are no longer shown in the appendices.
- 3.2 Where recommendations have not been completed by their original due date, reasons are provided along with the grading applied to the recommendation in the original Internal Audit report. An explanation of the gradings used is shown at appendix C.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of

this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

7. IMPACT SECTION

- 7.1 **Economy** – The proposals in this report have no direct impact on the local economy.
- 7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review the position with Services implementing agreed Internal Audit recommendations. The proposals in this report will have no impact on improving the staff experience.
- 7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.
- 7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

- 8.1 Appendix A – Position with Agreed Recommendations as at 9 June 2017 – Summary.
- 8.2 Appendix B – Position with Agreed Recommendations as at 9 June 2017 – Detail.
- 8.3 Appendix C – Grading of Recommendations.

9. REPORT AUTHOR DETAILS

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APPENDIX A

POSITION WITH AGREED RECOMMENDATIONS AS AT 13 SEPTEMBER 2017

SUMMARY

The following table provides a summary of progress being made by Services with completing agreed recommendations. On 22 June 2017, the Committee was advised that, as at 9 June 2017, there were 72 recommendations which were due to have been completed by 30 April 2017 which were not fully complete. This has reduced to 50. The total not fully complete, which had an original due date of before 31 July 2017, is 61. Full details relating to progress, on a report by report basis, are shown in appendix B.

Recommendations							Grading of Overdue Recommendations		
SERVICE	Agreed in reports shown in Appendix B	Due for completion by 30.04.17	Confirmed complete by Service	New in May to July 2017	Confirmed complete by Service	Not fully complete by original due date of 31.07.17	Major	Significant	Important
Cross Service	88	81	70	7	0	18	1	14	3
Communities, Housing and Infrastructure	102	83	69	9	8	15	1	8	6
Corporate Governance	62	51	38	5	3	15	0	7	8
Education and Children's Services	39	37	31	1	0	7	0	6	1
Health and Social Care Partnership	34	34	28	0	0	6	0	5	1
Total	325	286	236	22	11	61	2	40	19

APPENDIX B

POSITION WITH AGREED RECOMMENDATIONS AS AT 13 SEPTEMBER 2017

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE

AC1604	Corporate Policies and Procedures	March 2016	2	2	0	2	2 Important
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The overdue recommendations were due to be implemented by the end of March 2017. The position with these is as follows:

Recommendation	Position
2.1.4 – The Council should hold a full categorised list of all policies and procedures via which all officers can access relevant information for their role and activities they intend to carry out (graded “important within audited area”).	As reported to Committee in June 2017, a revised corporate template has been agreed and is in use. A number of policies / procedures have been developed into an e-induction module for all new staff. All other policies / procedures are being developed across Services with progress being monitored through the project team. The Governance Review Board agreed to extend this to the end of August 2017. The latest update from the Service is that the Project Team have progressed Phase 1 of Project, the “housekeeping” of policies in the different services is substantially complete. Where new policies have been developed these have been on the revised corporate template. The Project is captured in the overall Transformation Portfolio. An update on Phase 1 of the Project will be presented to the Governance Review Board in September, 2017.
2.1.5 – The Council should ensure a timetable is put in place for implementation of a policy framework for all Council policies (graded “important within audited area”).	As reported to Committee in June 2017, the Governance Review Board is monitoring progress of this project through the wider Governance Review Programme and had agreed to extend the collation / housekeeping aspect to the end of August 2017. The latest update from the Service is that the draft Framework has been developed and is ready to be submitted to the Governance Review Board in September 2017 for consideration.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

AC1615	Timesheets	January 2016	25	25	23	2	2 Significant
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.4.6 (1c) was due to be implemented in July 2016 – On-line timesheet to be implemented which will have built in rules that will help ensure that payments are made in accordance with the rules and conditions of service (graded “significant within audited area”).	<p>As reported previously, this had been delayed due to competing priorities and because testing identified issues with the formulas. It was anticipated that a pilot would begin in October 2016 with full implementation in January or February 2017. The Service advised that this was launched in Customer Services in February 2017 and that it was planned to roll this out across other services once the pilot feedback is fully assessed. The Service then advised that the system had been developed, tested and the roll-out had commenced in Corporate Governance. HR would work with Directorates to roll this out further in a phased and systematic way but it would not be completed until at least the end of August 2017.</p> <p>The latest update from IT is that the HR officer progressing YourHR left the Council in June 2017, and in conjunction with the decision at FP&R in December 2016 to proceed with the procurement of a Human Capital Management system, which will replace existing HR and Payroll systems, all work associated with the development and roll-out of YourHR is under review to avoid duplication of effort. Where it is possible to extend the use of YourHR without further development, or with only very minimal development this will be considered, prioritised and resourced along with other workloads. Functionality as described within the audit will be incorporated into requirements specification of the replacement HCM system.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

Recommendation	Position
<i>(AC1615 – Timesheets – Continued)</i>	
2.4.6 (2) was due to be implemented in July 2016 – Spot checks will be put in place on an ongoing basis to ensure the correct application of guidance in relation to payment for non-standard hours (graded “significant within audited area”).	As reported previously, this was going to be addressed through the on-line timesheet in Your HR. A full update is shown against recommendation 2.4.6 (1c) above.

AC1621	ALEOs	February 2016	10	10	6	4	4 Significant
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.2.6 (a) was due to be implemented in June 2017 – Services should ensure that there is an up to date Service Level Agreement with each ALEO (graded “significant within audited area”).	Commercial and Procurement Services have stated that it is anticipated it will take around 12 months to get new agreements in place. Implementation of this recommendation will, therefore, be delayed until August 2018.
2.2.6 (b) was due to be implemented in June 2017 – Services should ensure all ALEO SLAs confirm performance reporting requirements, and state that ongoing funding is subject to evidenced satisfactory performance (graded “significant within audited area”).	As for 2.2.6 (a) above.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

Recommendation	Position
<i>(AC1621 – ALEOs – Continued)</i>	
2.4.9 (i) was due to be implemented in June 2017 – Services should ensure financial clauses in all SLAs accurately reflect the partners’ intentions (graded “significant within audited area”).	As for 2.2.6 (a) above.
2.4.11 was due to be implemented in June 2017 – Services should ensure all material ALEO SLAs contain a requirement for Internal Audit arrangements, and facilitate reporting of assurance gained through these arrangements to the Council (graded “significant within audited area”).	As for 2.2.6 (a) above.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

AC1623	Compliance with Procurement Legislation	June 2016	28	28	23	5	5 Significant
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.1.12 was due to be implemented in June 2016 – C&PS in conjunction with Finance should review Financial Regulations to clarify whether and what exceptions to the requirement to raise a Purchase Order are allowed (graded “significant within audited area”).	<p>As reported previously, Commercial and Procurement Services had advised that a draft list of exceptions had been prepared and required to be discussed with Finance colleagues. Reference to the list of exceptions was to be included in the next update to the Financial Regulations which was being prepared. A revised completion date of 31 March 2017 was anticipated to fit with this review. C&PS subsequently advised that this remained in progress as part of the review of Financial Regulations. Governance colleagues had advised that these were scheduled to be reported to the Finance Policy and Resources Committee in September 2017.</p> <p>The latest update from the Service is that the review of Financial Regulations will be delayed in light of the work on the Target Operating Model to ensure that updates comply with the TOM. Revised Financial Regulations and other governance documentation will be presented to Council in March 2018.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

Recommendation	Position
<i>(AC1623 – Compliance with Procurement Legislation – Continued)</i>	
2.4.7 was due to be implemented in September 2016 – The Service should ensure that spend on supplies which are likely to be used by more than one school is forecast so that appropriate Committee approval and tendering can be completed for aggregate spend (graded “significant within audited area”).	<p>As reported previously, the Service was in the process of identifying expenditure across the schools. It was anticipated that this would be completed by March 2017 and that expenditure across other Directorates would have to be considered. The Service then advised that, as there is currently no system to allow identification of collected spend on an item by item basis, it was more appropriate at that time to adopt a common sense approach to tackling the issue of compliance in overall school spend. The Service was therefore targeting the commodities that all schools would have a requirement for, eg transport for school trips. In the case of school trips, there is significant spend not currently covered by contract and the creation of a contract would significantly reduce the time taken by schools when seeking quotes for transport.</p> <p>The Service anticipates that it will take until March 2018 to address this one issue.</p>
2.5.4 was due to be implemented in March 2017 – C&PS should review the status of implied contracts, determine appropriate actions with the Service, and seek Committee approval (graded “significant within audited area”).	<p>As reported previously, Commercial and Procurement Services advised that this would be complete in September 2017 as Service reviews are required to be completed first.</p> <p>The latest update from the Service is that this will now take until the end of December 2017.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

Recommendation	Position
<i>(AC1623 – Compliance with Procurement Legislation – Continued)</i>	
2.6.4 was due to be implemented in June 2016 – C&PS in conjunction with Finance should review whether revision and re-authorisation of Purchase Orders is necessary for minor changes to content and value (graded “significant within audited area”) .	As 2.1.12 above.
2.6.6 was due to be implemented in June 2016 – C&PS will issue guidance clarifying the raising of purchase orders and any exceptions (graded “significant within audited area”) .	As 2.1.12 above.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

AC1712	Agency Staff	February 2017	14	14	12	2	1 Major 1 Significant
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.2.4 was due to be implemented in June 2017 – Services should ensure Standing Orders, Financial Regulations and EU Tendering legislation are complied with (<i>graded “major at a Service level”</i>).	<p>The Service response to the recommendation was “The responsibility of adhering to Standing Orders and Procurement Regulations is for the hiring manager responsible for the budget. The Corporate Procurement Steering Group, with involvement from each Directorate is working to establish a ‘gatekeeper’ role for the commission of agency staff going forward.”</p> <p>As part of the Transformation Portfolio an Establishment Control Board has been created to monitor the council’s establishment and a report will be taken to the Board to agree the ‘gatekeeper’ role by October 2017.</p>
2.3.4 was due to be implemented in June 2017 – All agency worker procurement should be processed through PECOS by Service contacts designated in established procedures (<i>graded “significant within audited area”</i>).	As for 2.2.4, above.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

AC1716	Timesheets and Allowances	February 2017	9	9	6	3	2 Significant 1 Important
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Progress with implementing the four recommendations that are overdue is as detailed below.

Recommendation	Position
2.3.5 (2) was due to be implemented by the end of July 2017 – Where it is agreed that breaks will be paid, a register should be maintained of agreements providing details of the staff groups affected (graded “significant within audited area”)	HR has advised that, due to the nature of work being undertaken in the area identified, there will be no deduction of unpaid break and risk assessments will be carried out for working over 6 hours with no break. Work is underway to seek approval for an amendment to the collective agreement the Council has with the Trade Unions for this group of staff. It is anticipated that this will take until the end of December 2017 to resolve.
2.4.6 (1) was due to be implemented by the end of February 2017 – HR should determine the best approach to ensuring that additional holiday pay is only claimed when eligible hours have been worked (graded “significant within audited area”).	<p>The Service response in the audit report was as follows: Within YourHR a button has been set up with definition of regular, this has to be chosen for the additional holiday payment to be made. This will be in place when the first group of staff are introduced to electronic timesheets.</p> <p>As reported previously, the Service stated that this is included in the design and roll-out of the overtime module. HR is working with Directorates to roll this out further in a phased and systematic way but it would not be completed until at least the end of August 2017.</p> <p><i>(continued over page)</i></p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CROSS SERVICE (continued)

Recommendation	Position
<i>(AC1716 – Timesheets and Allowances – Continued)</i>	
2.4.6 (1) (continued)	The latest update from IT is that the HR officer progressing YourHR left the Council in June 2017, and in conjunction with the decision at FP&R in December 2016 to proceed with the procurement of a Human Capital Management system, which will replace existing HR and Payroll systems, all work associated with the development and roll-out of YourHR is under review to avoid duplication of effort. Where it is possible to extend the use of YourHR without further development, or with only very minimal development this will be considered, prioritised and resourced along with other workloads. Functionality as described within the audit will be incorporated into requirements specification of the replacement HCM system.
2.8.2 was due to be implemented by the end of April 2017 - HR should consider designating specific periods as annual leave for term-time staff in order to provide greater clarity (graded “important within audited area”).	As reported previously, HR has been leading on a project dealing with this issue and a proposal was issued to relevant managers and Trade Union colleagues in April 2017. It has been agreed that the recommended course of action will be implemented and this was to be finalised by the end of June 2017 for implementation in the 2017/18 academic year. The latest update is that consultation with the Trade Unions will take place when schools return after the summer break and the recommendation should be implemented by the end of September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE

AC1602 AW	Craft Workers Terms and Conditions	October 2015	9	9	5	4	1 Major 3 Significant
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All of the recommendations in this report were due to be implemented by the end of June 2016. The position with the overdue recommendations is as follows:

Recommendation	Position
2.2.6 – The Service should renegotiate the Agreement based on current working practice (<i>graded “major at a service level”</i>).	<p>As reported previously, the Service advised that all recommendations were being progressed through discussion and negotiation, and that it was anticipated they would all be resolved by December 2016. The Service then advised that they were discussing a renewed craft agreement with trade workers and unions. Meetings had taken place and others were due in January leading into February 2017. The Service was hopeful that an agreement could be signed as soon as possible in 2017. The June 2017 meeting of the Committee was advised that the craft agreement had to be agreed at a regional level by the unions. At that stage, until other union matters are resolved, progress had stalled but it was hoped that discussions would resume in the near future.</p> <p>Internal Audit is awaiting an update from the Service.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

Recommendation	Position
<i>(AC1602AW – Craft Workers Terms and Conditions – Continued)</i>	
2.3.13 – The Service should complete the roll out of the hand held system to ensure that periods of stand-by are covered (graded “significant within audited area”).	As reported previously, this had been partially implemented and piloted and would be fully implemented with the new craft agreement. The June 2017 meeting of the Committee was advised that the craft agreement had to be agreed at a regional level by the unions. At that stage, until other union matters are resolved, progress had stalled but it was hoped that discussions would resume in the near future. Internal Audit is awaiting an update from the Service.
2.3.14 – The Service should consider whether such payments remain appropriate (graded “significant within audited area”).	As reported previously, this is being reviewed as part of the new craft agreement, as per 2.2.6 above.
2.3.16 – The Service should consider whether calls that have been cancelled within a short period of having been lodged should be verified to confirm the identity of the caller (graded “significant within audited area”).	As reported previously, this was being reviewed as part of the new craft agreement, as per 2.2.6, above, and discussions will take place with housing management. The June 2017 meeting of the Committee was advised that this will be addressed when additional IT is introduced to the call out service.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

AC1608	Trade Waste	January 2016	14	14	10	4	2 Significant 2 Important
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.1.9 was due to be implemented in June 2016 – The Service in conjunction with Finance should review the charging system for extraordinary uplifts (graded “important within audited area”).	As reported previously, the Service advised that it has developed a revised timetable for delivery of this element to dovetail with the introduction of the Council-wide Digital Platform. To proceed with work on the existing system that would quickly be redundant is not considered a good use of resources. The Waste and Recycling Service is one of the first areas for integration with the Digital Platform and it was anticipated that this action would be complete by June 2017, but is now due by the end of September 2017 to tie in with the implementation of other recommendations.
2.1.10 was due to be implemented in September 2016 – The Service should implement reconciliations between records of work completed, work invoiced, and income received, to ensure that income has been received for the provision of all goods and services (graded “significant within audited area”).	As reported previously, the Service advised that the Bartec system is being introduced which is designed to resolve the issues. For similar reasons to 2.1.9, this action would be complete by April 2017. However, the Service advised that delays to completing this action had been encountered due to resource availability as a result of the roll out of the waste changes, software updates and the knock on impact of the Council’s digital platform project delays. It was anticipated that the action will be completed by September 2017 subject to the Council’s digital platform project remaining on schedule. The Service is working closely with the digital platform project team to complete this work.
2.1.12 was due to be implemented in September 2016 – The Service should introduce checks to ensure the accuracy and completeness of all invoices raised (graded “significant within audited area”).	As 2.1.10, above

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

Recommendation	Position
<i>(AC1608 – Trade Waste – Continued)</i>	
2.1.13 (a) was due to be implemented in June 2016 – The Service should review the cost of uplifts against charge rates, and determine whether or not it is appropriate for reduced charges to be offered to either attract or retain customers (graded “important within audited area”).	As reported previously, the Service advised that a review of costs of uplifts cannot be completed until data derived from the Bartec Collective System have been gathered and validated. Use of a non-standard charging rate is rare at this time and therefore the Service considered that the impact of deferring this action until confidence in its outcome can be gained is low. The recommendation was to be implemented by the end of March 2017. However, the Service then advised of further delays to completing this action linked to the response to recommendation 2.1.10 above.

AC1618	Vehicle and Driver Records	April 2016	22	22	20	2	2 Significant
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.1.2ii was due to be implemented in November 2016 - Fleet should work with Services to determine their ongoing fleet requirements, in line with these principles, in advance of any further significant procurement exercises (graded “significant within audited area”).	As reported previously, the Service advised that surveys were sent out to all Services in late 2016 requesting information on vehicle and plant usage. The returns indicated that all Services required their vehicles for the maximum time with no spare capacity. The results of the telematics trial detailed below will help inform decisions with initial results anticipated by September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

Recommendation	Position
<i>(AC1618 – Vehicle and Driver Records – Continued)</i>	
2.1.2iii was due to be implemented in November 2016 - Fleet should seek to identify 'excess' vehicles promptly in order to maximise resale value where vehicles are not required (graded "significant within audited area").	As reported previously, in January 2017, the Communities, Housing and Infrastructure Committee approved a telematics trial that would take place on 10 vehicles over a 3-6 month period. Should this trial prove successful, Fleet would present the results and seek further approval to implement a telematics system for all fleet vehicles and plant. The results of the trial will demonstrate vehicle performance, driver behaviour and utilisation; the benefits will include increased utilisation and potential fleet reduction saving cost pressures on maintenance, fuel and department budgets. Initial results are anticipated by September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

AC1703	Cleaning Payroll	June 2016	14	14	12	2	2 Important
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The position with the overdue recommendations, which were due to be implemented by the end of January 2017, is as follows:

Recommendation	Position
2.4.5 (b) - The Cleaning Service in conjunction with HR should undertake a review of the overtime rates payable to all staff, with a view to matching the rate payable to the job covered rather than the employees' regular hourly rate (graded "important within audited area")	<p>Management response in IA report - The Service (HR) currently has a number of projects that will be looking further at overtime analysis and multiple contracts and it is anticipated that these issues will be picked up as a result. These are due to commence in June 2016.</p> <p>As reported previously, HR advised that YourHR had recently been rolled out in Corporate Governance and the Office of the Chief Executive, and would be rolled out further in June assuming that no issues are identified. It is anticipated that this will be complete by December 2017.</p> <p>The latest update from IT is that the HR officer progressing YourHR left the Council in June 2017, and in conjunction with the decision at FP&R in December 2016 to proceed with the procurement of a Human Capital Management system, which will replace existing HR and Payroll systems, all work associated with the development and roll-out of YourHR is under review to avoid duplication of effort. Where it is possible to extend the use of YourHR without further development, or with only very minimal development this will be considered, prioritised and resourced along with other workloads. Functionality as described within the audit will be incorporated into requirements specification of the replacement HCM system.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

Recommendation	Position
<i>(AC1703 – Cleaning Payroll – Continued)</i>	
2.5.3 – HR will explore possibility of using YourHR to monitor staff contracted hours and rotas, create a database of employees available to work extra hours and when, record the team extra hours are worked in and provide data to cleaning management (graded “important within audited area”)	As reported previously, the Service had determined that a database won't be suitable, but other functionalities within the recommendation would be considered after the Overtime Module was rolled out. A full update is shown against recommendation 2.4.5 (b) above.

AC1705	Roads Payroll	August 2016	22	21	19	2	1 Significant 1 Important
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.2.19 (1a) was due to be implemented in March 2017 - Payroll should ensure all payments, including those made in arrears, are at the rate applicable on the date the work was carried out (graded “significant within audited area”)	As reported previously, HR advised that overtime claims are planned to go through YourHR in the next few months and this will resolve the issue. It was anticipated that this is likely to happen by the end of August 2017. The latest update from IT is that the HR officer progressing YourHR left the Council in June 2017, and in conjunction with the decision at FP&R in December 2016 to proceed with the procurement of a Human Capital Management system, which will replace existing HR and Payroll systems, all work associated with the development and roll-out of YourHR is under review to avoid duplication of effort. Where it is possible to extend the use of YourHR without further development, or with only very minimal development this will be considered, prioritised and resourced along with other workloads. Functionality as described within the audit will be incorporated into requirements specification of the replacement HCM system.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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COMMUNITIES, HOUSING AND INFRASTRUCTURE (continued)

Recommendation	Position
<i>(AC1705 – Roads Payroll – Continued)</i>	
2.2.13 was due to be implemented in February 2017 - The Service should review options to ensure all relevant duties (including supervision, administration and vehicle checks) can be completed within contractual hours (graded "important within audited area")	As reported previously, the Service advised that this will now form part of a wide restructure of the Roads Service which was underway. Once the two senior posts are recruited to, the working patterns will be part of the formal review for the remainder of the Service. It is anticipated that this will take to the end of December 2017 to complete.

AC1714	Land and Buildings	February 2017	9	0	0	0	0
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AC1720	Vehicle and Driver Records	March 2017	12	12	11	1	1 Important
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Progress with the overdue recommendation is detailed below:

Recommendation	Position
2.6.5 (iii) was due to be implemented in June 2017 – Fleet should consider randomly inspecting Tachograph Infringement Letters to ensure that Services can evidence that management are taking appropriate action to highlight infringements to Drivers (graded "important within audited area")	The Service has advised that a Fleet Compliance Assistant is due to start in August 2017 and this recommendation will be part of the tasks of that post. It is anticipated that checks will start taking place by the end of September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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CORPORATE GOVERNANCE

AC1610	Budget Monitoring	November 2016	9	8	8	0	0
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AC1614	Risk Management	November 2015	10	10	6	4	2 Significant 2 Important
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.1.6 was due to be implemented by the end of March 2016 – The Strategic Risk Register should be updated, approved and reported to the Audit, Risk and Scrutiny Committee (graded “significant within audited area”).	<p>As reported previously, there was to be a strategic risk register (SRR) and a corporate operational risk register. The operational register would be drawn from those risks with corporate impact which are recorded in the service risk registers. The corporate operational risk register was to be reported to the Audit, Risk and Scrutiny Committee in June 2016 and the SRR was to follow. The SRR is now reported to CMT regularly although CMT had yet to make a decision on reporting to the Audit, Risk and Scrutiny Committee.</p> <p>The June 2017 meeting of the Committee was advised that the position had changed with this recommendation. In February 2017, CMT approved 2017 the completion of a single corporate risk register at the top tier of management, to be considered and reviewed by CMT (stewardship) monthly. This had been in place since February. No decision had been taken on reporting the register into the public domain due to the sensitive nature of the content including commercial sensitivity. Legal advice has been obtained to support the non-disclosure of the register beyond CMT at the current time.</p> <p>The latest update from the Service is that the Corporate Risk Register will be reported to Committee in September 2017.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1614 – Risk Management – Continued)</i>	
2.1.7 was due to be implemented by the end of March 2016 – Performance Dashboards held on The Zone should be populated with the required data (graded “important within audited area”).	<p>As reported previously, all risk registers will be uploaded to the relevant dashboards once agreed. Performance dashboards are being reviewed as part of the Performance Management Framework Review. The June 2017 meeting of the Committee was advised that the Corporate Governance Risk Register continues to be reported on the directorate’s performance dashboard. The register is reviewed regularly and following each review, the new version is uploaded. The next review will take place in June. Dashboard development more widely is subject to the Performance, Risk and Improvement Programme which had its inaugural meeting in April 2017.</p> <p>The latest update is that Education and Children’s Services have a dashboard that links to their risk register. Communities Housing and Infrastructure have no active dashboard through which to report their risk register.</p>
2.1.13 was due to be implemented by the end of March 2016 – The Risk Management Manual should be reviewed and updated where appropriate (graded “important within audited area”).	<p>As reported previously, the strategy was to be revised through work with consultants on the governance review and the manual would then need to be revised after that. The strategy was due to be reported to the Audit, Risk and Scrutiny Committee in September 2016 and the manual revision would be complete by September 2016. The revised strategy was then to be reported to Committee in November with the manual being revised in 2017. The Audit, Risk and Scrutiny Committee was advised in November 2016 that the risk system review had concluded and the associated implementation plan was being reported to the Audit, Risk and Scrutiny Committee in November 2016. Work on the revised strategy and manual were about to start and it was expected that the strategy would be reported in the first half of 2017. <i>(continued over page)</i></p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1614 – Risk Management – Continued)</i>	
2.1.13 continued	<p>The June 2017 meeting of the Committee was advised that the risk and assurance review identified confusion over some risk terminology and there have also been significant developments in the risk management software. Guidance is now being prepared to cover both of these areas and will be made available in June to all officers involved in risk management and will replace the existing manual on the Council’s intranet. The Risk Management Strategy will be prepared in late summer 2017, in order to take account of the development required post council elections including the agreement of a risk appetite statement for ACC.</p> <p>The latest update is that work has begun to revise the strategy. The manual is being replaced with a suite of individual guidance documents. One has already been produced and distributed. The revised strategy will; be reported to the Audit, Risk and Scrutiny Committee in February 2018, with the manual be completed at the same time.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1614 – Risk Management – Continued)</i>	
2.1.19 was due to be implemented by the end of April 2016 – A Risk Management annual report should be prepared and presented to the Audit, Risk and Scrutiny Committee (graded “significant within audited area”).	<p>As reported previously, this had been delayed to the September 2016 meeting of the Committee to allow for inclusion of a benchmarking exercise. At that time, the benchmarking exercise had not commenced and it was intended to report to the November 2016 meeting of the Audit, Risk and Scrutiny Committee. The Committee was advised in November 2016 that the benchmarking data had been received in draft form only and, as a result of having not received final data, the exercise has been delayed further.</p> <p>The June 2017 meeting of the Committee was advised that the output of the benchmarking exercise has been aligned with the priorities in the risk and assurance review project which is under way. The project was previously reported to Audit, Risk & Scrutiny Committee before the output was received and it was agreed that updates would be provided to future meetings as the project progressed. This will still be the case. The project is now part of the wider Performance, Risk and Improvement Programme.</p> <p>The latest update is that an annual risk management report will be presented to the Audit, Risk and Scrutiny Committee in alignment with the Annual Governance Statement in June 2018.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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CORPORATE GOVERNANCE (continued)

AC1619	Social Work Tendering	April 2016	14	13	12	1	1 Significant
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Progress with the overdue recommendation is as follows:

Recommendation	Position
2.2.3 (i) was due to be implemented in March 2017 – Social Work should ensure that a commissioning strategy is in place in all areas and that procurement plans are robust (graded “significant within audited area”).	As reported previously, the Service has advised that a draft commissioning plan was expected to be available for public consultation by the end of July 2017. The latest update from the Service is that this will now be presented to an Integration Joint Board meeting in December 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CORPORATE GOVERNANCE (continued)

AC1707	Data Protection	September 2016	14	13	6	7	3 Significant 4 Important
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.5.6 (a) due March 2017 - The SIRO should work with all relevant Services to develop and deliver all appropriate Council staff with refresher training which includes the areas of Data Protection related information security and information management standards, on a three yearly basis (<i>graded "significant within audited area"</i>)	<p>As reported previously, the Information Governance Group were developing a training & awareness campaign, which was expected to be piloted in July 2017. The campaign will be testing a new approach to the delivery of training & awareness activity, and as such will supplement, and not replace existing mandatory training until the effectiveness of this approach is measured and evaluated. It remains the case in the meantime that staff are expected to refresh their data protection training by completing appropriate existing OIL training.</p> <p>The latest update from the Service is that Information Matters training and awareness campaign will start in September 2017 to align with the date that revised Information & ICT policies are submitted for approval at FP&R. It is anticipated that this will now be completed by January 2018.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1707 – Data Protection – Continued)</i>	
2.5.6 (b) due March 2017 - The SIRO should consider what appropriate measures should be implemented to measure all forms of Data Protection training. As per the recommendation made by the ICO in its 2013 Report, formal KPIs, overseen by CMT, should be introduced to measure mandatory Data Protection training completion. Additionally, this should also include how instances of non-compliance shall be dealt with (<i>graded “significant within audited area”</i>)	<p>As reported previously, the Information Governance Group were developing a training & awareness campaign, which was expected to be piloted in July 2017. The campaign will be testing a new approach to the delivery of training & awareness activity, and as such will supplement, and not replace existing mandatory training until the effectiveness of this approach is measured and evaluated. Progress including uptake was to be reported quarterly by the Information Governance Group through the Governance Review Board to CMT, from the meeting on 29 June 2017 onwards.</p> <p>The latest update from the Service is that Information Matters training and awareness campaign will start in September 2017 to align with the date that revised Information & ICT policies are submitted for approval at FP&R. It is anticipated that this will now be completed by January 2018.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1707 – Data Protection – Continued)</i>	
2.8.4, due March 2017 - Consideration should be given to using the Corporate Asset Register to track IT equipment throughout its life, recording current status, owner and location. Where the name of the end user or location is not known, notes explaining the situation should be recorded in the Register (graded “significant within audited area”)	As reported previously, assets are still being managed through IT Asset DB and Infrastructure. A project is underway to import and manage asset lifecycle this year. The implementation date has been extended to December 2017.
2.11.1 due December 2016 - Consideration should be given to updating the ICT Acceptable Use Policy to include links to other ICT procedures (graded “important within audited area”)	As reported previously, the Service had advised that the policies had been updated and were due for submission to CMT on 29 June 2017 as part of the Information Management Policies review of the Information Governance programme work. The latest update from the Service is that policies have been updated and will be submitted to the Finance, Policy and Resources Committee on 20 September 2017 for approval.
2.12.6 (a) due March 2017 - Work should not be carried out with a third party without a valid, signed contract in place. Services should be advised to seek the advice of the Legal Team within CPS, when engaging with a new supplier to ensure appropriate Data Protection clauses are included in the contract (graded “important within audited area”) .	As reported previously, Commercial and Procurement Services advised that guidance notes had been published and training was being prepared for delivery which will cover these points. This will be done by the end of September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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CORPORATE GOVERNANCE (continued)

Recommendation	Position
<i>(AC1707 – Data Protection – Continued)</i>	
2.12.6 (b) due April 2017 - The Council should exercise their contractual rights to carry out contract compliance audits to provide assurance of Data Protection Act compliance (graded “important within audited area”).	As for 2.12.6 (a) above.
2.15.6 due March 2017 - Clear guidance should be introduced surrounding charging fees for Subject Access Requests. As per the ICO recommendation, the Council should consider implementing a central log of Subject Access Requests (graded “important within audited area”).	As reported previously, the Service advised that, as part of the Council’s broader transformation programme, complaints and information request handling (including subject access) will be consolidated into a central team, and processing will be managed through the Council’s customer experience platform, which will provide a central log of subject access requests. This is expected to be implemented by the end of December 2017.

AC1708	InfoSmart System	August 2016	7	7	6	1	1 Important
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The position with the overdue recommendation is as follows:

Recommendation	Position
2.2.3 (b) was due to be implemented in December 2016 – CPS should liaise with ICT to identify an individual to act as system owner, who should ensure that performance management reports are provided as required by the contract (graded “important within audited area”).	As reported previously, an individual had been identified to act as system owner and performance reporting was included in the contract review and will be aligned to C&PS requirements (co-user Planning no longer utilising the system). The review was to be complete by the end March 2017. At the June 2017 meeting the Committee was advised that the review of the contract remained on-going and was due to be completed by July 2017. Internal Audit is awaiting an update from the Service.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
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CORPORATE GOVERNANCE (continued)

AC1715	Treasury Management	February 2017	4	2	2	0	0
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AC1719	Revenue Budget Setting	May 2017	4	3	1	2	1 Significant 1 Important
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The position with the overdue recommendations is as follows:

Recommendation	Position
2.1.7 was due to be implemented by the end of June 2016 – More targeted guidance on the budget process for budget holders and team members should be created (Head of Policy, Performance and Resources (E&CS), Head of Legal and Democratic Services, Head of Land and Property Assets, Head of Public Infrastructure and Environment, and the Acting Head of Planning and Sustainable Development) (graded “important within audited area”).	Finance has advised that the budget process has been subject to review during May and June 2017. This makes a number of proposed changes to the process and is being taken to CMT for approval on 31 August 2017. Further to that approval, revised detailed guidance will be drawn up by 1 October 2017.
2.3.8 was due to be implemented by the end of July 2017 – Finance should ensure there is a clear audit trail to show that all budget adjustments agreed through the budget process have been applied, and disclosed, appropriately (graded “significant within audited area”).	Finance has advised that, as part of the revised process, new documentation is being prepared to record the full documented audit trail and meet the requirements of the audit recommendation. These will be implemented as at 1 September 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

EDUCATION AND CHILDREN'S SERVICES

AC1604 AW	Payment Controls in Children's Social Work	February 2016	19	19	14	5	4 Significant 1 Important
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Progress with the overdue recommendations is as follows:

Recommendation	Position
2.2.11 was due to be implemented by the end of July 2017 – The Service should ensure that appropriate, consistent authorisation levels are established for approval of care packages and invoices, that officers are aware of them and that they are imposed by relevant systems (graded "important within audited area").	Progress with implementing this is being discussed between Internal Audit and the Service.
2.2.15 was due to be implemented in June 2016 – relates to C&PS reviewing and rationalising supplier numbers to ensure that there are no duplicates (graded "important within audited area").	As reported previously, implementation of the enhanced reporting tool that would have enabled this recommendation to be completed has been delayed. The Service was working with the provider, C&PS and ICT colleagues to resolve the issues and expected that this would be achieved by the end of November 2016. The Service then advised that this should be complete by the end of February 2017. In June 2017 the Committee was advised that implementation of the reporting tool remained ongoing and it was anticipated that this would be in place by the end of September 2017. In the interim, duplicate suppliers are being identified and dealt with as they come to light as part of normal monitoring.
2.2.27 (ii) was due to be implemented in August 2016 – The Service should review controls over payments for block-funded care (graded "significant within audited area").	As reported previously, progress with implementing this is being discussed between Internal Audit and the Service.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

EDUCATION AND CHILDREN'S SERVICES

Recommendation	Position
<i>(AC1604AW – Payment Controls in Children's Social Work – Continued)</i>	
2.2.30 (i) was due to be implemented in April 2017 – The Service should set up service agreements and pay invoices for all Fostering and Residential Care through CareFirst (graded "significant within audited area").	As reported previously, the Service implemented a system via CareFirst which manages payments to ACC foster carers. Further work was ongoing to develop the system to other ACC carers (adopters and kinship carers). The development of CareFirst to manage payments to external fostering agencies was ongoing and was due to be completed by end of December 2017.
2.2.30 (ii) was due to be implemented in April 2017 – The Service should review options for improving control and assurance over payments to fostering agencies (graded "significant within audited area").	As for 2.2.30 (i) above

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

EDUCATION AND CHILDREN'S SERVICES (continued)

AC1605	Secondary Schools	April 2016	17	17	16	1	1 Significant
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Progress with the overdue recommendation is as follows:

Recommendation	Position
2.6.7 was due to be implemented in August 2016 – The service should ensure class contributions, and waived charges are consistent across all schools, that calculations supporting the values are retained, and all monies collected are receipted and paid directly into the council bank account timeously (graded "significant within audited area").	<p>As reported previously, the Service is currently investigating practice in schools and returns received to date suggest that there is diversity in practice. It may require a working group to determine a common approach and this will be resolved by March 2017.</p> <p>As reported to Committee in June 2017, the latest update from the Service is that a circular was issued to all schools in June 2016 in relation to the collection of income and this covered receipting of income and payment into bank accounts. This was reinforced by the training sessions held for school staff between August 2016 and January 2017. However, consistency in charges for class contributions remains outstanding. The outcome of the working group may well be a Policy document which would need to be considered at Committee thereby extending the timescales for completion of this recommendation to October 2017.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

EDUCATION AND CHILDREN'S SERVICES (continued)

AC1718	Primary Schools	February 2017	3	2	1	1	1 Significant
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The overdue recommendation was due to be implemented by the end of March 2017:

Recommendation	Position
2.3.1 – The Service should reregister with the Nursery Milk Reimbursement Unit and claim grant monies available (graded “significant within audited area”)	<p>As reported previously, the Service re-registered with the Nursery Milk Unit in relation to both school nurseries and day care provision and were developing the claims procedure for individual schools that will enable the Service to claim the subsidy from June 2017.</p> <p>The latest update from the Service is that a circular will be issued to schools in August 2017 with documents to enable claims from August. Training will be provided in the autumn, with the first four-monthly claims being submitted in December 2017.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

HEALTH AND SOCIAL CARE PARTNERSHIP

AC1617	Self-Directed Support	October 2016	21	21	19	2	2 Significant
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Progress with the overdue recommendations is detailed below:

Recommendation	Position
2.1.2 was due to be implemented in October 2016 – The Service should ensure the appropriate Committees are provided with updates on progress with implementing the timetable for Self-Directed Support (graded “significant within audited area”).	As reported previously, the Service advised that this would be completed in January 2017. As reported to Committee in June 2017, the latest update from the Service is that a workshop had to be held with the Integration Joint Board and, following the Council elections, there are other training priorities for the Board members. In view of this, updates on progress will not now be provided to the appropriate Committees until December 2017. A report has been discussed by Education & Children’s Services Committee on Self Direct Support.
2.4.2 was due to be implemented by the end of March 2017 - The Service should finalise and implement the Contributing to Your Care and Support Policy and guidance (graded “significant within audited area”).	As reported previously, the Service advised that draft guidance has been produced and was being reviewed. The policy and guidance will not be implemented until the end of October 2017.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

HEALTH AND SOCIAL CARE PARTNERSHIP (continued)

AC1709	Care First System	November 2016	13	13	9	4	3 Significant 1 Important
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Progress with the overdue recommendations is detailed below:

Recommendation	Position
2.1.4 was due to be implemented in April 2017 – The CareFirst Team should ensure that it complies with Standing Orders and procurement regulations in terms of the Service’s Case Recording System for Social Care Clients (graded “significant within audited area”).	<p>As reported previously, the Service advised that terms for an extension to the contract for three years to March 2020 have been agreed and Committee approval will be sought for this in September 2017.</p> <p>The latest update from the Service is that a report has been drafted and will be discussed at the Education and Children’s Services Committee on 16 November 2017.</p>
2.4.11 was due to be implemented in April 2017 – The Service should establish a written protocol to demonstrate where amendments and deletions requested in the CareFirst system require authorisation or supporting detail (graded “important within audited area”).	<p>As reported previously, the Service advised that this will now be complete by the end of September 2017 as the CareFirst team has been prioritised on other tasks.</p> <p>The latest update from the Service is that the current policy and procedures are still in place, however, the document needs to be updated to reflect the creation of the Education & Children’s Services directorate and the Health and Social Care Partnership. A working group has been created to move this forward.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.17	Confirmed Implemented by Service	Not implemented by original due date	

HEALTH AND SOCIAL CARE PARTNERSHIP (continued)

Recommendation	Position
<i>(AC1709 – Care First System – Continued)</i>	
2.5.6 (ii) was due to be implemented in March 2017 – Finance should review the instances where service users have not been reassessed and charged correctly. (graded “significant within audited area”) .	As reported previously, the Service advised that further investigation of the work required in order to complete this action has identified that there is considerably more involved than was first anticipated. A significant project is now underway involving Housing, Social Care and Finance to address the past issues and streamline the process to ensure that every applicant is charged accordingly under a set of procedures with specific timelines. The first draft of the Project plan was approved at CMT in April 2017 and further work is ongoing. It is likely that this will not be completed before 30 June 2018.
2.7.4 were due to be implemented in April 2017 – The Service should ensure that Business Continuity Plans adequately reference how activities will continue to operate in the event of loss of CareFirst access (graded “significant within audited area”) .	As reported previously, the Service advised that this will now be complete by the end of September 2017 as the CareFirst team has been prioritised on other tasks.

APPENDIX C

Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 th September 2017
REPORT TITLE	Wellington Brae Investigation
REPORT NUMBER	CHI/17/241
DIRECTOR	Bernadette Marjoram
REPORT AUTHOR	Bernadette Marjoram

1. PURPOSE OF REPORT:-

- 1.1** The purpose of this report is to provide the Committee with the Management Response to the review undertaken by the Corporate Investigation Team (CIT) into the circumstances surrounding the Wellington Brae project.

2. RECOMMENDATIONS

- 2.1** That the Committee notes:
- a. The Investigation Report and Recommendations; and
 - b. The Management Response to the recommendations of the investigation report.

3. BACKGROUND

- 3.1** In April 2017, the Wellington Brae project became subject to public scrutiny. There were allegations that:
- the correct Council processes had not been followed;
 - the project lacked the necessary oversight and transparency; and
 - public money had, in some way, been misused.
- 3.2** There were further issues when emails purporting to originate from Council officers appeared in the local press.

3.3 An investigation into the project was requested by the Interim Director of Communities, Housing and Infrastructure in May 2017. The terms of the investigation were approved by the Chief Executive and Head of Finance.

3.4 The investigation was intended to:

- Examine the full circumstances from beginning to end;
- Investigate where and why actions by specific officers deviated from that expected;
- Confirm that the information contained within the Sustrans funding application was correct, and that subsequent awards were within the scope of their accepted practice;
- Determine what data breaches occurred and their extent.

3.5 The Investigation has made a series of recommendations, which are set out in the Corporate Investigation Report at Appendix 2 and summarised in Appendix 1, these cover the following key areas:

- (I) Finance/ Funding
- (II) Project Management
- (III) Governance
- (IV) Elected Members

3.6 The Investigation Report was provided to the Interim Director of Community, Housing and Infrastructure and the Management Response is set out below in Section 3.8.

3.7 Audit Scotland had been approached to undertake an investigation but they subsequently advised the Chief Executive they would await the outcome of the Council investigation. Following committee consideration of this report, it will be forwarded to them.

3.8 **Management Response to Recommendations**

Recommendations (I) - (III)

3.8.1 The Service Management accepts the overall findings and recommendations of the Investigation Report including the recommendation that the Director of CH&I consider whether further management action be taken. This will be done in accordance with Council's agreed policies and procedures.

3.8.2 The recommendations proposed are either already in the process of being implemented as part of the wider Capital Programme Governance Review, reported to Audit, Risk and Scrutiny Committee on 27th June, 2017 and/ or included in the wider Service Review referred to in Section 3.8.5.

- 3.8.3 As part of the implementation of the wider Capital Programme Governance Review, further in-depth reviews have also been undertaken on individual programmes within the overall Capital Programme including the Transportation Programme, which is where Wellington Brae project sits. This review has concluded and supports the findings and recommendations of the Investigation Report.
- 3.8.4 The actions arising from the Reviews above are being monitored via the monthly Capital Board.
- 3.8.5 The issues identified in the Reviews mentioned above, will also be incorporated into the service wide improvement review of the Planning and Sustainable Development Service, which commenced on 11th September 2017.
- 3.8.6 It is anticipated this wider Service Review and subsequent improvement plan, incorporating the above, will be fully implemented in 2018/19, with monitoring of progress captured through the Service Improvement Plan and reported to the Communities, Housing and Infrastructure Committee.

Recommendation (IV)

- 3.8.7 This recommendation is welcomed and the Monitoring Officer will begin the process of bringing an updated version of the Member-Officer Relations Protocol for consideration at the meeting of Full Council on 5 March 2018. In advance of the meeting, consultation will take place with officers and elected members. This will help ensure that the updated version provides officers and members with additional support to address issues raised in the investigation report.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report.
- 4.2 However, as part of the Management Response, it should be noted the review of the procedures and practices, will provide assurance the Councils Financial Regulations are being met.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.
- 5.2 It should be noted that Appendix 2 to this report contains confidential information in terms of Section 50a 3(b) of the Local Government

(Scotland) Act 1973. The contents of Appendix 2 should not be disclosed to any person. Disclosure of the content of Appendix 2 could lead to a breach of the Data Protection Act 1998 and may breach fair employment practices. Where relevant, disclosure would lead to a breach of the Councillors' Code of Conduct.

6. MANAGEMENT OF RISK

- 6.1** The Investigation Report has identified potential areas of risk arising from their findings. The Management Response to the findings and recommendations contained in the CIT report will addresses these.

7. IMPACT SECTION

7.1 Economy

- 7.1.1 Not applicable.

7.2 People

- 7.2.1 The revision of procedures and practices will ensure their consistent application, to secure an equitable service to all customers in a transparent way.
- 7.2.2 The revision of procedures and practices will ensure that all staff aware of the standards expected of them as well as the training and support available

7.3 Place

- 7.3.1 Not applicable.

7.4 Technology

- 7.4.1 Not applicable.

8. BACKGROUND PAPERS

N/A

9. APPENDICES (if applicable)

Appendix 1: Summary of Corporate Investigation Report
Appendix 2: Corporate Investigation Report Confidential

10. REPORT AUTHOR DETAILS

Name: Bernadette Marjoram
Job title: Interim Director of CHI
Email address: BMarjoram@aberdeencity.gov.uk
Phone number: 3889

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APPENDIX 1 – SCOPE AND RECOMMENDATIONS OF THE INVESTIGATION REPORT

1. Background

- 1.1 Following an incident in relation to Wellington Brae and the subsequent press coverage an investigation was instigated by the Interim Director for Communities, Housing & Infrastructure. The Corporate Investigation team undertook the investigation on her behalf.
- 1.2 For transparency, the full scope of the investigation is included within this Appendix. There then follows the full recommendations from the investigation report. The investigation report is included as Appendix 2 and is confidential.
- 1.3 Extracts of the findings from the report relating to each of the recommendations are also included, where appropriate, to facilitate discussion in public. The paragraph numbering is taken from the full report.
- 1.4 The confidential information contained within Appendix 2 is personal information – i.e. information relating to individuals who can be identified from that information. This personal information cannot be placed in the public domain as doing so would breach data protection law.

Details of Operation	
Name	Operation Arthur
Purpose	To investigate the circumstances and events which led to Council officers approving more than £200,000 of remedial works at Wellington Brae in 2017 without the scrutiny and oversight expected of a public authority. Further, to identify any issues of potential misconduct by the officers involved in the above process, including unauthorised information disclosure to third parties.
Allegations/queries received	It is alleged ACC officers have authorised work without the proper scrutiny and without regard to the correct processes. This work might have financially benefitted a third party. This investigation is likely to highlight staff misconduct and/or negligence, and may uncover evidence of criminality.
Details	<p>The cycle path at Wellington Brae is part of a national network. In financial year 2015/16 storm damage led to land slippage and damage to that section of the path.</p> <p>Funding was sought, presumably by officers of CH&I, from Sustrans, a national cycling charity. Sustrans provided an initial outlay of just over £21,000 for preliminary work, with up to a further £200,000 approved for subsequent work.</p> <p>Proposals for both the work and the Sustrans grant money ought to have seen scrutiny by the CH&I Committee. This did not happen.</p> <p>Land Registry checks indicated a third party might own some of the land affected. There was no written correspondence received from the land owner to authorise the work.</p> <p>Officers received a verbal authorisation from a third party to commence the work. This third party may not actually have been the lawful owner of that land, nor authorised to act on behalf of the true owner. It is suggested that this verbal authorisation was accepted as sufficient to begin work.</p> <p>A procurement exercise was undertaken and on 01/03/2017 tenders were invited to complete the work. This process ended the same month.</p> <p>In April 2017 local press carried stories linking the work at Wellington Brae to former Councillor Young, and raising questions about why his interest had not been disclosed to the Council, and why there had been no oversight of the decision. Emails from Council Officers to former Councillor Young also appeared in the press.</p>

	<p>This investigation is intended to:</p> <ol style="list-style-type: none"> 1. Examine the full circumstances from beginning to end; 2. Investigate where and why actions by specific Officers deviated from that expected; 3. Confirm that the information contained within the Sustrans funding application was correct, and that subsequent awards were within the scope of their accepted practice; 4. Determine what data breaches occurred and their extent. <p>This investigation will build on these findings and report on any officer misconduct or fraudulent activity. A recommendation will be provided on the following outcomes</p> <ol style="list-style-type: none"> 1. Internal disciplinary action 2. Civil response 3. Criminal prosecution 4. Proceeds of Crime action <p>Per current policy, any allegation or evidence relating to potential misconduct by elected members will be passed to the Monitoring Officer.</p>
Local knowledge used (including observations on individual cases that raised suspicion)	<p>Press reports, including statements made by former Councillor Young.</p> <p>Information received from Eric Owens, interim Head of Planning, ACC.</p>
Trade/Business/Customer/Landlord suspected	<p>Aberdeen City Council employees. Aberdeen City Council elected members.</p>
Scale of operation	<p>Following an initial assessment of information this operation has been deemed a high priority. There is a high level of public interest; a political dimension; a potential failure of ACC to correctly manage funds; likely extensive documentary evidence.</p>
Methodology	<p>To identify and secure or preserve sufficient evidence to determine whether there has been any misconduct or criminality on the part of Aberdeen City Council staff. It is vital to take control of any evidence, physical or electronic, before the opportunity arises for any more of it to be removed or deleted. It is likely that access will be required to internally held ICT and telecommunications data. Initial information suggests that it may be necessary to obtain such data from elected (or formerly elected) members. This is solely on the basis that these members are potential witnesses; any evidence of alleged misconduct or impropriety on the part of elected</p>

	<p>members will be passed to the Head of Legal for consideration.</p> <p>In consultation with CH&I and HR, consideration may have to be given to re-assigning or suspending staff in line with the managing discipline policy to allow the investigation to proceed unimpeded.</p> <p>Senior management to be kept advised of findings at regular intervals or where a significant event occurs. The actions of the interim Director of CH&I and interim Head of Planning are to be reviewed as a priority. The final report will be delivered to the interim Director of CH&I and Head of Finance.</p> <p>Communications team manager to be advised to allow a measured response to be provided in the event of media interest.</p> <p>Where there is evidence of criminality this will be referred, subject to the agreement of the authorising officer(s), to Police Scotland.</p> <p>Necessary actions:</p> <ol style="list-style-type: none"> 1. Compile a list of all persons involved in the process; 2. Secure email data on each of these individuals; 3. Secure ICT evidence relating to individuals of interest; 4. Obtain all copies of reports, risk assessments and proposals and funding paperwork; 5. Obtain documentation explaining the correct governance procedure for work of this type, in local policy and in law; 6. Interview of all relevant persons. This may involve officers, including at a senior level, as well as elected and former-elected members. In order to efficiently facilitate the investigation process, audio recorded interviews will be offered to interviewees. 7. Ongoing analysis of information and evidence secured by the investigation, including correct cataloguing. 8. This will culminate in a report to the Service, which will likely require further action by same.
<p>Estimated period of the operation</p>	<p>Report to be made available to CH&I Committee on 29/08/2017.</p>
<p>Other Departments/Agencies which may become involved</p>	<p>Potentially ICT; Central Procurement Unit; Members; Member Services; Legal; Internal Audit; Audit Scotland; Police Scotland; the office of the Commissioner for Ethical</p>

	Standards in Public Life Scotland
Is CIT the appropriate team to investigate? (YES/NO)	Yes. CIT have the authority under the provisions of the Financial regulations and authority of CMT to request information from Services and access data. Where additional authority is required this will be sought from the Head of Finance under the authority granted to him by the Local Government (Scotland) Act section 95. CIT staff are qualified investigators, trained to a high standard in evidence gathering and are authorised to submit cases direct to the Crown Office Prosecution Fiscal Service.
Details on resources to be used	Existing resources will be used. Where technical input is required eg, ICT, services will be asked to provide assistance.
Are there sufficient resources to undertake the investigation? (YES/NO)	Yes. Existing operational duties will be re-assessed to give this operation priority.
Is investigation an effective use of resources? (YES/NO)	Yes. Due to the potential risk of misconduct/fraud CIT are the appropriate team to undertake the investigation support.
Explain why the operation is considered reasonable and proportionate	There is substantial public interest in this matter. The Council will wish to communicate to the public that it is committed to good governance and open to scrutiny. As a Local Authority the Council has a statutory duty to ensure it provides best value and as such is required to review and/or investigate allegations where this has not been met.
Is there any risk of adverse publicity?	Yes. Any statements made will be under the direction of senior management, communications team and elected members.
Are there any health and safety considerations? If so, what are they?	Yes. Whilst site visits are unlikely, they are possible. Risks will be assessed on a case-by-case basis. Also, as this is a major enquiry, it can be expected that extended working hours will be required.

RECOMMENDATIONS

Finance/Funding

The investigation highlighted issues with the way in which funding was recorded and tracked. Therefore work should continue in ensuring uniform standards and practices are in place across services, particularly with regard to financial matters. It is specifically recommended that financial and funding documents are easily retrievable, and are clearly attributable to a particular project or purpose. This would be facilitated by the introduction of forms to record the officers involved in requesting and approving funding; the conditions attached to the funding; the purpose of the funding; officers authorised to disburse those funds, and what authority they are empowered by.

Funding agreements should follow a standard process across the Council for approval and governance. This includes gateway stages and sign-off of the relevant funding agreement requirements as specified by either the Council or the finding body.

Findings 1:

- 4.80 Committee approval should have been timeously sought for both Sustrans funding applications. The bulletin notification was inappropriate and did not allow scrutiny by members.
- 4.81 Redacted.
- 4.82 Redacted.
- 4.83 There were a number of points where the funding could have been reported to Committee. Each of these opportunities was missed.
- 4.84 The initial £50,000 funding application would have required Committee approval in May 2016, which would have conflicted with the expectation of Sustrans that the initial work be completed by the end of May 2016. Funds should either not have been accepted or, as the Monitoring Officer has advised the investigation, an Urgent Business Committee could have been called.
- 4.85 Despite notification to [names redacted], it is unclear why the initial funding was not reported. None of the witnesses could recall a decision to remove it from the Committee report, and there is no email detailing such a decision.
- 4.86 There was an opportunity to report the second tranche of funding [wording redacted] but this was missed.
- 4.87 [Redacted]
- 4.88 There was a lack of clarity over reporting expectations and potential changes to protocols. [Sentences redacted]
- 4.89 Whilst the failure to report to Committee is undoubtedly a serious matter, it has not been possible to obtain sufficient evidence which would allow specific officer(s) to be held accountable for any inaction or negligence. [Sentence redacted]

Findings 2:

- 6.18 Sustrans funding would have been made available irrespective of who owned the affected land. There was no requirement to seek costs from the landowner first. As the funding was not part of an ongoing programme, and that the funds were provided by the Scottish Government for a specific purpose, there were few requirements specified by Sustrans, outside the general framework of the MOU [i.e. the Memorandum of Understanding between Sustrans and grantees].
- 6.19 Funding was arranged solely through email. This was in largely due to the urgency of the situation. However, not having financial records securely stored and available as official documents for later retrieval by line managers presents a number of potential ramifications for the Council. These include non-compliance to FOI/EIR requests as the information is not stored in an obvious location; the lack of central recording of such income presents an inherent risk of fraud, theft and embezzlement; and there is the reputational damage caused by the Council handling applications and funds outside of a recognisable corporate structure.
- 6.20 Funding was implicitly conditional on meeting the terms of the MOU, including securing necessary permissions. In the absence of documentary evidence, the council is unable to demonstrate that it had these permissions in place during the first phase of work. This has potential implications in terms of claims against the Council, and reputational damage to the Council and, by extension, Sustrans. It is therefore plausible that other MOU expectations were not met.

Project Management

<p>The investigation highlighted that project delivery across [redacted] was amorphous. The Council has an opportunity to implement a standard operating procedure which can be tailored to the various types of projects which it undertakes. A common operating model should ensure a uniformly acceptable methodology for project delivery. A common model also means that a large number of staff can be trained in project delivery, with less reliance on specialist training which would likely cost more per head.</p>
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<p>This methodology should ensure that Project Managers are identified at the inception of a project, as well as a clear understanding of who is the project owner. Paperwork (or electronic versions thereof) should be an integral part of the project. Decisions need to be made by the most appropriate person and reviewed by a suitably senior and qualified manager. Officers joining an existing project need to be able to see that the actions taken thus far are complete and the authorisations for further work are in place.</p>
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<p>It is recommended that the Council obtains a project management software solution which allows the scanning and retention of all documents connected to a project (plans, emails, minutes, letters, applications, etc.). These records can allow us to demonstrate that the various aspects of external funding agreements, e.g. land ownership checks, have been complied with. This mechanism should also allow an authorised person to easily retrieve details of all funding, without the need to check trackers held by different teams.</p>
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<p>Project risk assessments should include consideration of political or public interest factors.</p>

<p>Guidance and refresher material should be readily available to all project staff. It is suggested that</p>

this should be via the Council intranet pages.

Findings:

- 4.59 No consideration was given to requiring the landowner to repair the damage to the retaining walls, possibly due to the urgent nature of the work, or that funding had already been secured. It is not known whether it is normal Council practice to seek to funding from landowners. [Sentence redacted] Had Legal been involved at the outset, this might have been possible. The option to recoup some of the project costs from the landowner was presented at the May 2017 CHI Committee. Officers had not recommended this course of action as it could have required legal action through the court system; that the timing of such an action would be detrimental to the Council as funding had already been secured; and that the delay would add additional cost as contractors were already on site.
- 4.60 There was a lack of effective project governance. At no point was it determined which team owned the project, or which individual was ultimately responsible. This represents risks in terms of financial and resource management, with the potential for inefficiency and duplication.
- 4.61 The lack of specific project management training means that the project was undertaken by officers whom the Council may struggle to prove were sufficiently qualified to perform their work. Any lack of training increases the chance that mistakes will be made, and thereafter that the Council is vicariously liable for these mistakes.
- 4.62 There is no record kept of what actions were taken and why. There is no record of the dates and attendance of meetings, or what was agreed. This means that the Council is unable to prove due diligence, placing it at legal and reputational risk, and leaving it defenceless against claims. It further means that when reviewing a project the Council has no means by which to identify points at which its processes failed.
- 4.63 An engineering project delivered between two teams will be faced with various challenges. One would therefore expect that regular meetings would be held, so that action points could be agreed, and the team members were aware of all relevant factors. Proper records would ensure that all team members have a point of reference. This could be facilitated by even basic minute-keeping. It is surprising that the project teams did not keep minutes; even more so when those involved work for a local authority expected to account for its decisions.
- 4.64 Based on interviews with officers and the email records available, it seems obvious that emergency work was undertaken as there was an immediate and identifiable health and safety risk. Officer testimony is reliant upon their memory of events, and email availability on their individual administration skills. Should either of those things be deficient, the Council is unable to prove that officer actions were proportionate, that other options were considered, and that relevant factors had been taken into account.
- 4.65 Not all pieces of the project were in place at the right times, for instance written authorisation from all landowners prior to the commencement of work.

- 4.66 [Sentences redacted] With hindsight it would have been beneficial if the officers had sought advice from LDS as soon as they believed Councillor Young to be the landowner, so that a legal opinion could be obtained.
- 4.67 It was appropriate for Councillor Young to seek advice from the Monitoring Officer in order to address any perception that he was conflicted in his interests.
- 4.68 The Monitoring Officer has stated that based on the information available to him at the time, Councillor Young did not require to declare a conflict of interest because he had not been asked to make a decision as a Councillor on the works or the grant, but rather to provide his consent as a landowner.
- 4.69 The initial misidentification of the landowner was by Registers of Scotland which led Legal Services to state that [name redacted] owned the land. This misidentification did not come to light until a further land registry search was undertaken in 2017. ACC could not have done anything to avert this.
- 4.70 Ascertaining the correct landowner in this case was dependent on the information contained in the Register of Sasines, which requires a process of deduction, and frequently cross-checking of titles. [Sentence redacted]
- 4.71 When [redacted] became aware that the landowner was not [name redacted], as had been advised, the search should have been re-referred to Legal. As it happens, the second search request was not made until 16 March 2017, the requesting officer describing this as “urgent-ish.”
- 4.72 [Redacted]
- 4.73 [Redacted]
- 4.74 [Sentence redacted] This risked the Council performing work for which it could not demonstrate it had permission (as there was no supporting documentation). More significantly, the Council did not actually have permission as the land owner had not been correctly identified. In such a situation the Council could find itself defending legal claims for interfering with property without the landowner’s permission. This would also be in contravention of the MOU with Sustrans, thereby jeopardising funding. Should the work on site lead to accident or injury, the lack of appropriate permission could potentially invalidate any supposed insurance cover. Finally there is the reputational damage involved [remainder of sentence redacted].
- 4.75 [redacted] identified potential issues regarding planning permission and management of work around the Tree Preservation Order. They sought advice from suitably qualified officers and obtained this in writing. It was determined that no planning permission was required as the estimated cost of works amounted to £250,000 or less, and there was no suggested change of use, as per schedule 1, part 12, Town and Country Planning (General Permitted Development)(Scotland) Order 1992.

- 4.76 Subsequently, the proposed work on the Brae was correctly opened to public consultation for the statutory period on the planning register. [Sentence redacted]
- 4.77 [Redacted]
- 4.78 [Sentences redacted] However, the sheet piling work was later found to be unnecessary.
- 4.79 The tender was managed by [names redacted] in accordance with advice from Central Purchasing Unit. The amounts involved in the tender and the procedures followed comply with the Council's Procurement Regulations 2016, and hence the procurement legislation. The phase 1 work was completed internally for just over £20,000. The phase 2 work was open to tender as a works contract, considerably under the EU threshold.

Governance
<p>The investigation has shown there to be failures in governance, including insufficient supervision and record keeping. It is recommended that the Director of CHI should review processes and procedures, culture and practice within the Directorate and determine if any management action is required regarding the failure to report to Committee, instructing work without sufficient authorisation or the absence of documents or minutes connected to projects. It is further recommended that she ascertains whether any work is required to improve communication through the service hierarchy; whether there is a current satisfactory arrangement for staff to escalate concerns and ensure they are addressed; whether the Service is adequately staffed for the functions it delivers; whether the Service processes could benefit from greater involvement with staff of LDS, for instance with advice on when Committee reports are required, when a legal opinion should be sought, etc..</p> <p>The issue of data breaches raises wider questions on how the Council uses email, including whether staff/members should be prohibited from sending emails relating to official business to their private email addresses; and also whether it is necessary or desirable to have a framework or approval process which covers the disclosure of internal emails to a third party.</p>

Findings:

- 5.1 It has not been possible to determine a single point of failure in relation to how officers managed the Wellington Brae Project. This chapter is intended to list the points at which alternative actions might have positively impacted the project.
- 5.2 There was a failure to report external funding to Committee, and thereby obtain the appropriate authorisation from members. [Sentences redacted]
- 5.3 [Redacted]
- 5.4 Further, the information on project funding was held over separate documents, depending on the nature of the funding, which increased the chances of omission.
- 5.5 [Redacted]

- 5.6 [Redacted]
- 5.7 [Redacted]
- 5.8 The lack of a coherent project management plan detailing specific responsibilities means that it has not been possible to identify individual members of staff accountable for specific actions. [Sentence redacted]
- 5.9 [Redacted]
- 5.10 [Redacted]
- 5.11 [Redacted]
- 5.12 [Redacted]
- 5.13 [Redacted]
- 5.14 [Redacted]
- 7.7 Due to the intense public interest and ongoing risk of reputational damage, it was proportionate to lock down the email accounts of the relevant staff and investigate further. Had the emails been released by a member of staff it could have constituted a deliberate data breach, possibly resulting in a financial penalty from the Information Commissioner.
- 7.8 There is no evidence to suggest that Council officers were responsible for unauthorised disclosure of the emails to Councillor Young.
- 7.9 [Sentence redacted] Councillor Young's actions did not contravene the ICT Acceptable Use Policy as the emails did not concern any confidential information, were not protectively marked, and had been addressed to Councillor Young.
- 7.10 The logs from ICT were passed to the investigation. It is noted that some staff forwarded emails (not those of interest as part of this investigation) concerning Wellington Brae from their work email address to their private Gmail and Hotmail addresses, which is contrary to Council policy, creating risks around information management and security.

Elected Members
The Member-Officer Relations Protocol is due for revision before Full Council in March 2018. It is recommended that the Monitoring Officer provides guidance in the protocol on a number of issues raised in this report, such as escalation procedures when a response is needed from a member; and principles and procedures on how officers conduct business with a private citizen who happens to be a Councillor, particularly with regards to how the public and private roles are delineated.

Findings:

- 4.90 As the interim Head of Service and Director were relatively new to the organisation, they had no prior knowledge of Wellington Brae, and an incomplete knowledge of custom and practice within the Directorate. As such the initial decisions taken to review, not only Wellington Brae, but other projects, was wholly correct.
- 4.91 Options to allow the work to proceed were investigated; for instance, whether the work could be authorised through delegated powers.
- 4.92 The decision to halt the work on Wellington Brae was not taken lightly, and it was made with due regard to the various risks, pressures and cost implications.
- 4.93 The halting of the work was the only realistic option available as it was unsanctioned by Committee. It also allowed some time for internal reviews to take place.
- 4.94 At the time the media statement was issued, there had been no full investigation, so the statement that there had been a serious failing by Council officers relied on the information available at the time, i.e. the absence of a Committee report, and it had not yet been ascertained who held title to the land. [Sentence redacted] However, Paul Smith states that this reference was to demonstrate that the project had not been requested by a third party.
- 4.95 Councillor Young was involved in the Wellington Brae project so far as he was believed to be the landowner, not in his capacity as an elected member.

Bernadette Marjoram has said that her interactions with Councillor Young were entirely on the basis of him being an elected member, as opposed to a private landowner. The officer witnesses have been clear that Councillor Young was informed of the media enquiries and content of the media statements in line with the provision on enquiries relating to individual elected members contained within the Council's Communications Policy. Councillor Young had no role in contributing to or authorising media statements made by the Council on the issue. The Monitoring Officer has stated that he did not consider it inappropriate for Councillor Young to be made aware of the Council's response.

Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

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