

Public Document Pack



To: Councillor Flynn, Convener; Councillor Yuill, Vice Convener; and Councillors Jackie Dunbar, Duncan, Graham, Lumsden, Avril MacKenzie, Reynolds and Townson.

Town House,
ABERDEEN 20 June 2019

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 **WEDNESDAY, 26 JUNE 2019 at 2.00 pm.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

NOTIFICATION 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 any 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)

DEPUTATIONS

4.1 There are no requests at this time

MINUTE OF PREVIOUS MEETING

5.1 Minute of Previous Meeting of 30 April 2019 (Pages 7 - 14)

COMMITTEE PLANNER

6.1 Committee Business Planner (Pages 15 - 20)

NOTICES OF MOTION

7.1 There are none at this time

COMMITTEE BUSINESS

Risk Management

8.1 ALEO Assurance Hub - GOV/19/294 (Pages 21 - 40)

8.2 Anti-Money Laundering - GOV/19/298 (Pages 41 - 50)

Internal Audit

8.3 Internal Audit Progress Report - IA/19/009 (Pages 51 - 60)

8.4 Internal Audit Follow Up on Recommendations - IA/19/010 (Pages 61 - 86)

8.5 Music Centre - IA/AC1925 (Pages 87 - 106)

8.6 Data Security in a Cloud Based Environment - IA/AC1912 (Pages 107 - 124)

8.7 Health and Social Care Partnership Charging Policy - IA/AC1908 (Pages 125 - 136)

External Audit

- 8.8 Local Area Network Scrutiny Summary (Pages 137 - 140)

Annual Reports and Accounts

- 8.9 External Audit Annual Audit Report (Pages 141 - 198)

- 8.10 Audited Annual Accounts (Pages 199 - 394)

Legal Obligations

- 8.11 RIPSA Quarterly Report - GOV/19/291 (Pages 395 - 400)

Scrutiny

- 8.12 SPSO Decisions, Inspector of Crematoria Complaint Decisions - CUS/19/292 (Pages 401 - 406)

- 8.13 Equal Pay Review - RES/19/297 (Pages 407 - 416)

EXEMPT/CONFIDENTIAL BUSINESS

- 9.1 Equal Pay Review - Exempt Appendix (Pages 417 - 420)

EHRAs related to reports on this agenda can be viewed [here](#)

To access the Service Updates for this Committee please click [here](#)

Website Address: www.aberdeencity.gov.uk

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

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DECLARATIONS OF INTEREST

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.

AUDIT, RISK AND SCRUTINY COMMITTEE

ABERDEEN, 30 April 2019. Minute of Meeting of the AUDIT, RISK AND SCRUTINY COMMITTEE. Present:- Councillor Flynn, Convener; Councillor Yuill, Vice-Convener; and Councillors Allard, Duncan, Graham, Lumsden, Avril MacKenzie, Townson and Wheeler (as substitute for Councillor Reynolds).

The agenda and reports associated with this minute can be found at:-
<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=507&MIId=6261>

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

MINUTE OF PREVIOUS MEETING OF 14 FEBRUARY 2019

1. The Committee had before it the minute of their previous meeting of 14 February 2019.

The Committee resolved:-

to approve the minute as a correct record.

COMMITTEE BUSINESS PLANNER

2. The Committee had before it the Committee Business Planner as prepared by the clerk.

The Committee resolved:-

- (i) in relation to item 14 (Marchburn Park) to note that a report would be submitted to the Committee on completion of all works associated with the project and that in the interim, Service Updates would be circulated to provide details on any significant developments with the project; and
- (ii) to otherwise note the content of the business planner.

INTERNAL AUDIT PROGRESS REPORT

3. The Committee had before it a report by the Chief Internal Auditor which advised on progress against the 2018/19 internal audit plan.

The Committee resolved:-

to note the content of the report.

AUDIT, RISK AND SCRUTINY COMMITTEE

30 April 2019

INTERNAL AUDIT FOLLOW UP ON RECOMMENDATIONS

4. The Committee had before it a report by the Chief Internal Auditor which advised on progress made by the relevant Functions with implementing recommendations that had been agreed in Internal Audit reports.

The Committee were advised that further progress had been made since the report had been issued, reducing the number of outstanding audit recommendations to 9.

The Committee resolved:-

- (i) to note the thanks given to officers for the completion of outstanding audit recommendations; and
- (ii) to otherwise note the content of the report.

INTERNAL AUDIT ANNUAL REPORT 2018/19

5. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit Annual Report for 2018/19.

The report recommended:

That the Committee -

- (a) note the annual report for 2018/19;
- (b) note that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) note that there had been no limitation to the scope of Internal Audit work during 2018/19; and
- (d) note the outcome of Internal Audit's self-assessment against the requirements of the Public Sector Internal Audit Standards.

The Committee resolved:-

to approve the recommendations contained in the report.

INTEGRATION JOINT BOARD BUDGET SETTING, MONITORING AND FINANCIAL REPORTING

6. The Committee had before it a report by the Chief Internal Auditor which presented the outcome of an audit that was included in the Aberdeen City Integration Joint Board (IJB) Internal Audit plan for 2018/19.

The summary before Committee related to a review of Budget Setting, Monitoring and Financial Reporting for the IJB and was reported to the IJB Audit and Performance Systems Committee on 12 February 2019.

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The report recommended:

That the Committee note the content of the audit report.

The Committee resolved:-

to approve the recommendation contained in the report.

COMPLIANCE WITH PROCUREMENT LEGISLATION AND COUNCIL REGULATIONS

7. The Committee had before it a report by the Chief Internal Auditor which presented an audit in relation to Compliance with Procurement Legislation and Council Regulations which was undertaken to provide assurance that the Council had appropriate arrangements in place to ensure compliance with procurement legislation and internal regulations and that they were being complied with.

Councillor Duncan sought assurance that staff were being reminded of the importance to comply with the procurement systems in place. The Director of Resources advised that one-to-one meetings were taking place with all Chief Officers to ensure there was full compliance with the systems in place.

Councillor Duncan sought assurance as to whether there was adequate training in place for staff in relation to the contracts database and it being updated promptly for all new contracts and amended contract details. The Head of Commercial and Procurement advised that all staff involved with procurement were required to complete the online training course and a face to face course to ensure they were familiar with the requirements of the system.

Councillor Duncan asked whether the new Commissioning process and Committee approval process would be easier to manage. The Head of Commercial and Procurement advised that there was full scrutiny prior to Committee approval which ensured that all business cases were completed fully.

The Convener sought assurance that there were no further instances where the total spend of a contract exceeded the expenditure agreed at the relevant Committee. The Head of Commercial and Procurement advised that all contracts were being monitored.

Councillor Allard requested that a further audit in this area be considered to provide assurance to the Committee that improvements had been made. The Convener advised that he would welcome a future audit in this area and requested the Chief Internal Auditor to consider including a similar audit in the 2020/21 Internal Audit Plan.

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The Committee resolved:-

- (i) to note the responses from the Director of Resources and the Head of Commercial and Procurement to various questions raised by the Committee;
- (ii) to request the Chief Internal Auditor to consider including a similar audit into the Internal Audit Plan for 2020/21; and
- (iii) to otherwise note the content of the report and endorse the recommendations for improvement as agreed by the relevant function.

PUPIL EQUITY FUND

8. The Committee had before it a report by the Chief Internal Auditor which presented an audit in relation to the Pupil Equity Fund which was undertaken to provide assurance that schools were spending in accordance with their plans and that these were developed as required to close the poverty related attainment gap.

Councillor Townson sought guidance in relation to the staffing and whether they were existing staff taking up different roles or new recruits. The Chief Education Officer advised that there was a mixture with some existing staff working in a management capacity and others were newly recruited.

Councillor Duncan and Councillor Graham sought guidance as to whether it would be more appropriate for spend across schools on particular items to be done centrally rather than by each school to ensure the overall spend for the cluster remained within contract. The Chief Education Officer advised that she was working with the Chief Officer Finance to look at how this could be managed centrally to assist Head Teachers.

Councillor Allard sought guidance as to what support was in place for Head Teachers to enable them to be able to spend within the Academic year rather than the financial year. The Chief Education Officer advised that the school improvement plans were now submitted earlier in year to enable Head Teachers to have the full year to spend the fund as per the improvement plans.

Councillor Lumsden sought clarification as to the figures used for calculating the Pupil Equity Fund. The Chief Education Officer advised that the calculation was a complex one using both the 2014 and 2018 Health Living Surveys and that from the following year only the 2018 figures would be used.

The Committee resolved:-

- (i) to note the responses from the Chief Education Officer to various questions raised by the Committee; and
- (ii) to otherwise note the content of the report and endorse the recommendations for improvement as agreed by the relevant function.

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CRIMINAL JUSTICE

9. The Committee had before it a report by the Chief Internal Auditor which presented an audit in relation to Criminal Justice which was undertaken to provide assurance that adequate control was exercised over income and expenditure, that system data was accurate and adequately supported and that the reporting arrangements between the Council and the Integrated Joint Board (IJB) were appropriate.

The Committee resolved:-

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

ANNUAL COMMITTEE EFFECTIVENESS REPORT

10. The Committee had before it a report by the Chief Officer Governance which presented the annual effectiveness report for the Committee.

The report recommended:

That the Committee note the content of the annual report.

The Committee resolved:-

to approve the recommendation contained in the report.

UNAUDITED ACCOUNTS 2018/19 AND ANNUAL GOVERNANCE STATEMENT

11. The Committee had before it a report by the Director of Resources which provided an overview of the Council's 2018/19 unaudited accounts; presented the unaudited annual accounts for the registered charities whereby the Council was the sole trustee and also presented the annual governance statement.

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 2018/19;
- (b) note the content of the Council's unaudited Annual Accounts 2018/19;
- (c) note the content of the unaudited Annual Accounts 2018/19 of the Council's registered charities;
- (d) note that following this meeting the Council's and the registered charities unaudited Annual Accounts would be finalised, signed and submitted to the Council's external auditors, KPMG, and Audit Scotland;
- (e) note that the Audit, Risk & Scrutiny Committee on 26 June 2019 would receive the Council's audited Annual Accounts for consideration and approval prior to

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- their signature by the Chief Officer - Finance, Chief Executive and a Council Leader;
- (f) note that the Audit, Risk & Scrutiny Committee of 26 June 2019 would also receive the external auditor's report on the annual accounts for debate and consideration and that this report will set out the auditor's findings and conclusions, 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 June 2019 would 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.

The Director of Resources advised that Aberdeen were the first Local Authority to have completed the accounts process and congratulated the Chief Officer Finance and his team for the achievement.

The Committee resolved:-

- (i) to note the thanks given to the Chief Officer Finance and his staff for the work undertaken to get the unaudited accounts before the Committee; and
- (ii) to otherwise approve the recommendations contained in the report.

RIPSA

12. The Committee had before it a report by the Chief Officer Governance which advised that it was a requirement under paragraph 3.29 of the Scottish Government's Code of Practice for Covert Surveillance and Property interference that Elected Members review the authority's use of covert surveillance on a quarterly basis to ensure that it was being used consistently with the local authority's policy and that the policy remained fit for purpose.

The report recommended:

That the Committee note the update within the report.

The Committee resolved:

to approve the recommendation contained in the report.

INSPECTION REPORT OF ABERDEEN CREMATORIUM BY THE INSPECTOR OF CREMATORIA

13. The Committee had before it a report by the Chief Operating Officer which presented the Inspector of Crematoria's Inspection Report of Aberdeen Crematorium which was carried out on 23 January 2019.

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The report recommended:

That the Committee note the inspection report.

The Committee resolved:-

- (i) to note the thanks offered to the staff at the crematorium for the very positive inspection report; and
- (ii) to otherwise approve the recommendation contained in the report.

- **COUNCILLOR STEPHEN FLYNN, Convener**

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30 April 2019

	A	B	C	D	E	F	G	H	I
1	AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3			26 June 2019						
4	Internal Audit Progress and Performance	To provide an update on progress for the 2018/19 and 2019/20 audits	a report is on the agenda	David Hughes	Governance	Governance	2.2 & 2.4		
5	Internal Audit Follow Up on Recommendations	To provide an update on where Services are with implementing agreed recommendations	a report is on the agenda	David Hughes	Governance	Governance	2.3		
6	Music Centre	To provide assurance that procedures have been improved following completion of work undertaken by Corporate Investigation Team.	a report is on the agenda	David Hughes	Governance	Governance	2.2		
7	Contract Management	To focus on recent identified issues - 3rd Don Crossing - Photovoltaic Panels To include data/intelligence used for monitoring escalation of risk		David Hughes	Governance	Governance	2.2	D	Progress with the audit continues to be slow as information requested from various services has yet to be provided. A report is expected to be submitted in September 2019.
8	Data security in a cloud based environment	To provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud.	a report is on the agenda	David Hughes	Governance	Governance	2.2		
9	Shutdown of Non-essential spend	To provide assurance that the shutdown of non-essential spend has been effective in achieving its objective and instructions were complied with.		David Hughes	Governance	Governance	2.2	D	Data requested from Finance to be provided, delayed due to year end process. A report is expected in September 2019.
10	Income Generation	To provide assurance that budgeted income generation is based on robust assumptions and is being realised		David Hughes	Governance	Governance	2.2	D	Due to delays in information provided by services. A report is expected in September 2019.
11	Health and Social Care Partnership Charging Policy	To provide assurance that there is a clear charging policy in place and that it is being complied with.	a report is on the agenda	David Hughes	Governance	Governance	2.2		
12	Money Laundering	To present the reviewed Money Laundering policy for approval.	a report is on the agenda	Deirdre Nicholson	Governance	Governance	GD7.1		

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13	External Audit Annual Report	to present External Audit's Interim position in relation to the audit of the annual accounts	a report is on the agenda	Andy Shaw	Governance	Governance	3.1		
14	Local Area Network scrutiny summary	To present a summary of the Local Area Network Scrutiny Plan.	a report is on the agenda	Andy Shaw	Governance	Governance	3.1		
15	Audited Annual Accounts 2018/19	To present the audited accounts for ACC and registered charities	a report is on the agenda	Lesley Fullerton	Finance	Resources	4.1 and 4.2		
16	SPSO Decisions, Inspector of Crematoria Complaint Decisions	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.	a report is on the agenda	Lucy Mackenzie	Customer Experience	Customer	6.9		
17	Equal Pay Review	to provide information to Committee on an audit of Equal pay in Aberdeen City Council.	a report is on the agenda	Neil Yacamini	People and Organisation	Resources	Purpose 1.3		
18	ALEO Assurance Hub	To provide assurance on the risk management, financial management and governance arrangements of Arm's Length External Organisations (ALEOs) within the ALEO Assurance Hub's terms of reference.	a report is on the agenda	Vikki Cuthbert	Governance	Governance	Remit 1.2		
19	RIPSA Quarterly Report	Audit, Risk and Scrutiny Committee 26/09/17 the Committee requested that quarterly reports on policy/compliance.	a report is on the agenda	Alan Thomson	Governance	Governance	5.2		
20			25 September 2019						
21	Internal Audit Progress and Performance	To provide an update on progress for the 2018/19 and 2019/20 audits		David Hughes	Governance	Governance	2.4		
22	Internal Audit Follow Up on Recommendations	To provide an update on where Services are with implementing agreed recommendations		David Hughes	Governance	Governance	2.3		
23	Risk Management Policy	To present the Risk Management Framework		Ronnie McKean	Governance	Governance	Purpose 1.2 Remit 1.1		
24	Corporate Risk Register	To present the Corporate Risk Register		Ronnie McKean	Governance	Governance	Purpose 1.2 Remit 1.1		
25	SPSO Decisions, Inspector of Crematoria Complaint Decisions	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.		Lucy Mackenzie	Customer Experience	Customer	6.9		

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26	Information Governance Annual Report	To provide Committee with an annual report on the Council's information governance performance		Caroline Anderson	Business Intelligence and Performance Management	Commissioning	Remit 1.4		
27	Timesheets and Allowances	To provide assurance that payments are accurate and justified, and that improvements recommended in previous reviews have been fully implemented.		David Hughes	Governance	Governance	2.2		
28	Travel Policy	To provide assurance that the Council has appropriate arrangements in place and that these are being complied with.		David Hughes	Governance	Governance	2.2		
29	Cyber Security	To provide assurance that the controls detailed in the Corporate Risk Register (Corp006) are effective and that Assurance actions are progressing as planned.		David Hughes	Governance	Governance	2.2		
30	Housing Rent	To provide assurance over rent collection and arrears recovery procedures.		David Hughes	Governance	Governance	2.2		
31	Car Parking and Bus Lane Enforcement	To provide assurance that procedures regarding income collection and the management of fines are adequate.		David Hughes	Governance	Governance	2.2		
32	Stock Control	To provide assurance that procedures are adequate and stock movements are adequately accounted for.		David Hughes	Governance	Governance	2.2		
33	Ring Fenced Funding	To provide assurance that the Council has appropriate arrangements in place to ensure that conditions relating to ring-fenced funding contained within Scottish Government Grant are complied with.		David Hughes	Governance	Governance	2.2		
34	Risk Management	Previous review undertaken in 2015/16. Internal Audit is required by Public Sector Internal Audit Standards to review risk management arrangements on a regular basis. It is proposed to undertake a review to provide assurance over the arrangements that are currently in operation within the Council.		David Hughes	Governance	Governance	2.2		
35	RIPSA Quarterly Report	Audit, Risk and Scrutiny Committee 26/09/17 the Committee requested that quarterly reports on policy/compliance.		Alan Thomson	Governance	Governance			

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36			04 December 2019						
37	SPSO Decisions, Inspector of Crematoria Complaint Decisions	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.		Lucy Mackenzie	Customer Experience	Customer	6.9		
38	Internal Audit Progress and Performance	To provide an update on progress for the 2018/19 and 2019/20 audits		David Hughes	Governance	Governance	2.4		
39	Internal Audit Follow Up on Recommendations	To provide an update on where Services are with implementing agreed recommendations		David Hughes	Governance	Governance	2.3		
40	Civil Contingencies	To provide assurance that the Council has taken the necessary action and has plans in place to mitigate risks identified in the Corporate Risk Register (Corp004) to ensure that it can deliver on its obligations in the event of an emergency.		David Hughes	Governance	Governance	2.2		
41	Transformation	To provide assurance that the Council is continuing to make progress to ensure the success of its transformational aspirations.		David Hughes	Governance	Governance	2.2		
42	Voids	To provide assurance regarding the process for re-letting void properties and compliance therewith.		David Hughes	Governance	Governance	2.2		
43	Cash Collection	To provide assurance over procedures in operation relating to sample of cash collection locations.		David Hughes	Governance	Governance	2.2		
44	Children's Services	To provide assurance over Fostering and Adoption Allowances being paid.		David Hughes	Governance	Governance	2.2		
45	Risk Management - IJB	To review the process for identifying risks, managing them (including performance measures against each risk), and reporting to the IJB.		David Hughes	Governance	Governance	2.2		
46	Industrial and Commercial Property	To provide assurance over the processes in place for letting, recovering rental income, and managing voids for industrial and commercial premises.		David Hughes	Governance	Governance	2.2		
47	HR / Payroll System	To provide assurance that there is adequate control over the new CoreHR system and that issues raised in relation to previous system have been addressed.		David Hughes	Governance	Governance	2.2		
48	Investment Strategy and Investment Performance Management - Pensions Fund	To provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers.		David Hughes	Governance	Governance	2.2		

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49	RIPSA Quarterly Report	Audit, Risk and Scrutiny Committee 26/09/17 the Committee requested that quarterly reports on policy/compliance.		Alan Thomson	Governance	Governance			
50	February 2020								
51	SPSO Decisions, Inspector of Crematoria Complaint Decisions	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.		Lucy Mackenzie	Customer Experience	Customer	6.9		
52	Internal Audit Progress and Performance	To provide an update on progress for the 2018/19 and 2019/20 audits		David Hughes	Governance	Governance	2.4		
53	Internal Audit Follow Up on Recommendations	To provide an update on where Services are with implementing agreed recommendations		David Hughes	Governance	Governance	2.3		
54	Information Governance	To provide assurance that the controls in place for mitigating the risks identified in the Corporate Risk Register (Corp005) are adequate and operating as expected.		David Hughes	Governance	Governance	2.2		
55	SEEMIS	To provide assurance that appropriate control is being exercised over the system in view of the perceived criticality of the system and the significant volume of sensitive personal data held.		David Hughes	Governance	Governance	2.2		
56	School Catering	To provide assurance over income and procurement expenditure relating to school catering operations		David Hughes	Governance	Governance	2.2		
57	Financial Ledger System	To provide assurance over system controls, business continuity and contingency plans.		David Hughes	Governance	Governance	2.2		
58	Gas Servicing Contract	To provide assurance that contractual and operational issues are being complied with		David Hughes	Governance	Governance	2.2		
59									
60									
61	April 2020								
62	Internal Audit Progress Report	To provide an update on progress for the 2018/19 and 2019/20 audits		David Hughes	Governance	Governance	2.4		
63	Internal Audit Follow up on Recommendations	To provide an update on where Services are with implementing agreed recommendations		David Hughes	Governance	Governance	2.3		

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64	SPSO Decisions, Inspector of Crematoria Complaint Decisions	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.		Lucy Mackenzie	Customer Experience	Customer	6.9		
65	Workforce Planning	To provide assurance that the Council has appropriate and adequate plans in place to determine its workforce requirements and that these are in operation throughout the Council.		David Hughes	Governance	Governance	2.2		
66	Procurement	To provide assurance that the Council has appropriate arrangements in place, that are being complied with, to ensure compliance with procurement legislation and internal regulations.		David Hughes	Governance	Governance	2.2		
67	Performance Management	To provide assurance that the Council has effective performance management arrangements in place which produce accurate data		David Hughes	Governance	Governance	2.2		
68	Craft Workers' Terms and Conditions	To provide assurance that new Terms and Conditions have been implemented and are being complied with.		David Hughes	Governance	Governance	2.2		
69	Commissioned Services	To provide assurance that contract monitoring arrangements relating to Social Care Commissioned Services are adequate.		David Hughes	Governance	Governance	2.2		
70	TBC								
71	Marchburn Park	Operational Delivery Committee 19 April 2018 that in regards to Marchburn Park, "to instruct the Chief Officer (Early Intervention and Community Empowerment) to bring a report to Audit following conclusion of all matters detailed within this report."	Audit, Risk and Scrutiny 30 April There has been progress at Marchburn Park however not all of the issues have been completed therefore a report will be submitted at the conclusion of the issues. In the Interim, where there have been significant developments in the project, Service Updates will be submitted.	Neil Carnegie	Early Intervention and Community Empowerment	Customer	6.2		

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 June 2019
REPORT TITLE	ALEO Assurance Hub
REPORT NUMBER	GOV-19-294
CHIEF OFFICER	Fraser Bell
REPORT AUTHOR	Vikki Cuthbert
TERMS OF REFERENCE	Remit - 1.2

1. PURPOSE OF REPORT

To provide assurance on the risk management, financial management and governance arrangements of Arm's Length External Organisations (ALEOs) within the ALEO Assurance Hub's terms of reference.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Notes the level of assurance provided by each ALEO on risk management, financial management and governance; and
- 2.2 Notes that Assurance Hub officers and ALEO Service Leads will discuss any outstanding issues identified in the appendices and identified at the Audit, Risk and Scrutiny Committee with ALEO representatives, with a view to further improving the assessment ratings at the next Hub meeting.

3. BACKGROUND

- 3.1 The report provides an overview of the ALEO Assurance Hub's fifth cycle of scrutiny following the Committee's endorsement of an oversight approach which balanced the Council's need for assurance with an ALEO's right to govern itself as an independent entity.
- 3.2 The Hub continues to adopt a proportionate and risk-based approach and receives assurance from ALEOs through exception reporting which allows it to assess the level of ALEO risk to the Council. The reporting is based on the degree of assurance provided on each ALEO's financial management; risk management and governance arrangements.

- 3.3 The Hub met on 3 May 2019 with ALEO Service Leads in attendance as advisors to the Hub. The following key areas were identified for reporting, in accordance with the workplan previously agreed by the Committee:-

Governance

1. Implementation of General Data Protection Regulation
2. Use of Zero Hours Contracts; payment of Scottish Living Wage
3. **Sport Aberdeen** – Integration of Garthdee Alpine Sports (GAS) and Adventure Aberdeen (AA)
4. **Bon Accord Care** – Recruitment to post of Managing Director
5. **Aberdeen Heat and Power** – Appointment of Tenant Representatives to Board

Finance

1. Financial Reporting
2. Financial Management
3. Business Planning

Risk

1. Risk Management (risk registers and strategies)
2. External and Internal Audit
3. Business Continuity Planning
4. PREVENT Policies and Procedures (preventing Counter Terrorism)

- 3.4 The Hub's assessment of each ALEO has been attached within summary reports at **Appendix B**. The Assurance Standards and Ratings are set out at **Appendix A**.

- 3.5 **Appendix B** demonstrates continuing positive movement in the levels of assurance obtained. This varies between Very Low and Medium risk, and the Hub is seeing positive responses from each ALEO and strong engagement with the requirement for reporting.

- 3.6 ALEOs are required to submit their business plans annually, and these are being prepared for presentation to the Strategic Commissioning Committee between August and November. These will reflect the Council's return on investment against the outcomes of the Local Outcome Improvement Plan.

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 ALEOs provide 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 Legal officers within Commercial and Procurement Services have reviewed ALEO Service Level Agreements which aim to give effect to the ALEO Assurance Framework. These have been modified to recognise the requirements of the Assurance Hub to receive assurance regarding systems of governance, company outcomes and risk management and mitigation.
- 5.2 The Hub will help identify any projects and/or initiatives that could influence investment decisions of Bond holders or the Council's credit rating and ensure that the appropriate governance is put in place. This adds to the Council's existing Bond governance arrangements.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	Financial Failure of ALEOs impacting on the Council and its credit rating.	(L)	ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor. One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs.
Legal	ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes. GDPR Compliance.	(L)	Commercial and Procurement Services are currently reviewing ALEO service level agreements to ensure they remain robust and fit for purpose. The Strategic Commissioning Committee will have oversight of how ALEOs are achieving Council outcomes and complying with the terms of their service level agreements. The Legal Governance Team provide support and advice to

			the Hub on the steps ALEOs are taking on GDPR compliance in order for the Hub to provide assurance to Committee on ALEOs' management of this risk.
Employee	No direct risks arising from the report's recommendations.		
Customer	No direct risks arising from the report's recommendations.		
Environment	No direct risks arising from the report's recommendations.		
Technology	GDPR Compliance.	(M)	Each ALEO has demonstrated awareness of GDPR and have reported implementation plans to their Boards for scrutiny and approval. The Hub will continue to seek assurance on the policies, processes and systems ALEOs put in place to comply with GDPR due to its complexity and ongoing nature.
Reputational	ALEO corporate governance or service delivery failure has a negative impact on the Council's reputation.	(M)	The Council shares a significant amount of data with ALEOs and a breach or failure to comply with GDPR by an ALEO may have a reputational impact on the Council. The Hub will continue its oversight of ALEOs approach to data protection and seek assurance that data audits are taking place; policies, procedures and systems are being reviewed and staff training is being delivered.

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	The Hub supports the principles outlined in the Accounts Commission’s “Following the Public Pound” guidance by providing oversight of ALEOs to receive assurance on the robustness of their governance arrangements.
Partnerships and Alliances	The Hub is one component of the wider ALEO Assurance Framework and complements the work of the ALEO Strategic Partnership. The Partnership offers ALEO access to senior Council officers and provides a forum to discuss strategic planning, business planning and horizon scanning; with a view to strengthen links between the Council and its partner ALEOs.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Sections 1,6 and 8 of the EHRIA have been completed and sent to the Equalities Team.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

CG/17/108 - ALEO Assurance Hub Terms of Reference - reported to Audit, Risk and Scrutiny Committee, 26 September 2017; and

CG/18/075 - ALEO Assurance Hub – reported to Audit, Risk and Scrutiny Committee, 25 September 2018.

10. APPENDICES

Appendix A – Assurance Standards and Ratings
Appendix B – Summary of ALEO Assurance
Appendix C – Aberdeen Heat and Power
Appendix D – Aberdeen Performing Arts
Appendix E – Aberdeen Sports Village
Appendix F – Bon Accord Care
Appendix G – Sport Aberdeen

11. REPORT AUTHOR CONTACT DETAILS

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Appendix A

Assurance Standard	Assurance Rating
Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved.	Very Low
Responses provide evidence of good understanding and compliance although limited detail provided for some areas.	Low
Responses provide some indication of understanding and compliance	Medium
Minimal or poor responses providing little evidence of understanding or compliance.	High
Nil or inadequate responses with little or no understanding of requirement or evidence of compliance.	Very High

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Appendix B

	Overall Assurance Rating							
	Mar-18		Sep-18		Feb-19		June-19	
Aberdeen Heat and Power	Low	Medium	Low	Medium	Low		Very Low	Low
Aberdeen Performing Arts	Low	Medium	Low		Low	Medium	Low	Medium
Aberdeen Sport Village	Low	Medium	Low	Medium	Low	Medium	Low	
Bon Accord Care	Low	Medium	Low	Medium	Low	Medium	Very Low	Low
Sport Aberdeen	Low	Medium	Low		Low		Very Low	

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Aberdeen Heat and Power - Appendix C

	Assurance Request	ALEO Response	Assurance Rating
Governance	General Data Protection Regulation - Implementation Update	All policies and procedures are currently under review by AHP's quality audit service provider. The GDPR policy is next scheduled for review in February 2020.	Very Low
	Zero Hours Contracts/Scottish Living Wage	No staff are employed on casual or zero hours contracts and all are paid in excess of the Scottish Living Wage.	Very Low
	Recruitment of Tenant Representatives to the Board	The recruitment of two tenants to sit on the Board is not a mandatory governance requirement although it has proved beneficial in the past. AHP attempt to secure recruitment of tenants on a project by project basis so the Board can keep abreast of current issues. Unfortunately AHP have not had a steady stream of ACC project work currently so there has been minimal opportunity to recruit Tenant Representatives. We are however hopefully due to start a new ACC project in the summer and we will endeavour to engage with the tenants and recruit tenant representatives during this project.	Very Low
Risk	Risk Register including EU Exit related risks and mitigations	A copy of the risk register dated June 2019 was provided. The risk register was reviewed and approved at the Board Meeting held on 24th May. All risks identified on the register are categorised and includes risks associated with EU Exit as previously requested by the Hub. AHP advise that the risk register will be reviewed by the external auditor and recommendations will be incorporated and reported to the Board on 9th August 2019.	Very Low
	Details of internal and external audit work	AHP have recently appointed Wylie & Bisset to undertake internal audits over a 3 year period. As part of this focus, processes and policies have already been reviewed to support completion of a new Quality Manual. Auditors will prepare an internal audit plan covering the 3 year period and begin the first set of audits by May/June 2019. Plan was submitted and approved by the AHP Board on 24th May 2019 and will be presented to the Policy and Ops meeting on 11th June. The Hub will report progress in the next reporting cycle.	Very Low
	Business Continuity Planning (BCP) - maintenance and testing of plans	BCP reviewed by the Hub. The BCP is reviewed on an annual basis and presented to the Board for approval. This will be reviewed as part of internal audit plan and captured in AHP's Quality Manual. AHP confirms that testing of the plan is based upon activation as it primarily based upon loss of services and provided two recent examples where there was loss of CHP Generation in two energy centres plus loss of IT at AHP's main offices. The Hub would recommend that these events are recorded and documented to show testing/activation of plan and to ensure that lessons identified from plan activation are recorded and plans updated accordingly.	Low
	PREVENT policies and procedures	PREVENT Government guidance to be used to establish an action plan for Board approval. This will be followed up at a future Hub meeting.	Low
Finance	Management accounts and published annual accounts	Management accounts provided, reviewed by Hub and considered to be comprehensive. AHP to consider adding forecast figures into their financial monitoring reports. Annual accounts not due at this stage.	Low
	Financial Procedures including delegations, Board reports	Due for further review in May 2019 to fit in with internal audit plan.	Low
	Business Planning	Noted timescale for review of business plan due to go to Board in August 2019, thereafter to Committee before the end of the calendar year.	Low

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Aberdeen Performing Arts - Appendix D

	Assurance Request	ALEO Response	Assurance Rating
Governance	General Data Protection Regulation - Implementation Update	GDPR Policy reviewed annually, next review due 25 May 2019 and thereafter submitted to Organisational Sub Committee. Annual training scheduled each summer and policy available to all staff online. As part of improving data protection, Payment Card Industry Compliance is expected to be achieved in the summer and will be followed by Cyberessentials and Cyberessentials Plus accreditation.	Low
	Zero Hours Contracts/Scottish Living Wage	No staff are employed on zero hours contracts. The Scottish Living Wage is not paid but all employees, regardless of age, receive the National Living Wage.	Low
Risk	Risk Register including EU Exit related risks and mitigations	Risk Register captures EU Exit related risk, advice is being provided to EU nationals. Risk Register reviewed by Board in February.	Low
	Details of internal and external audit work	Internal Audit – two key audits conducted in current calendar year and no high risk recommendations identified.	Medium
	Business Continuity Planning (BCP) - maintenance and testing of plans	Seeking evidence from APA of BCP testing schedule. This will be addressed in the next round of Hub meetings.	Medium
	PREVENT policies and procedures	Staff have received training from Police Scotland and policies and procedures are in place for PREVENT.	Low
Finance	Management accounts and published annual accounts	Draft Management accounts to March 2019 have now been reported to APA Board and reviewed by the Assurance Hub. The report indicates a deficit of £235k, although APA have confirmed that the deficit figure includes depreciation costs relating to the Music Hall re-development £159k, which are considered not to be operational costs and were therefore not included in the previous monitoring reports. Overall this suggests a favourable movement on the P&L account against budget of £130k. The report also indicates a deficit of £270k on the General Reserve, noting that this does not comply with APA's Reserves Policy, which states that the fund should be between £100k and £400k. This position reflects the one-off nature of the music hall redevelopment work, for which the final invoice was received and settled in March. APA plan to restore the General Reserve during 2019/20	Low-Medium
	Financial Procedures including delegations, Board reports	Board Reporting template – still unresolved re financial implications section. Would actually help Board and informed decision making. Whilst the APA Board papers do confirm that Finance matters are discussed it is not possible from the contents of the Board papers to confirm that all pertinent issues are covered. The adoption of a “Financial Implications” section in the Board report template would assist in ensuring that the Board are well informed as to the financial impact of the decisions requested of them.	Low-Medium
	Business Planning	Business plan documents financial risks, including potential reductions in core funding from the Council. Business Plan to be presented to Committee before end of calendar year.	Low

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Aberdeen Sports Village - Appendix E

	Assurance Request	ALEO Response	Assurance Rating
Governance	General Data Protection Regulation - Implementation Update	GDPR action plan contains rolling actions to which additions are made as and when identified. The policy review is included in the action plan and is scheduled for review by the Data Protection Officer in May 2019 to allow for approval and publication before the one year due date. GDPR is included in the induction programme for all new employees and training is provided regularly. Supplementary training specific to the needs of particular groups is being developed as part of the action plan and will be implemented over summer 2019.	Very Low
	Zero Hours Contracts/Scottish Living Wage	To meet the fluctuation in demand caused by over 1M visitors annually, which cannot always be met by full time and part time employees, ASV employs a relatively small group (compared to overall staff numbers) of staff on casual/zero hours contracts. Staff in the pool of casual workers are happy to accept work at short notice and on an irregular basis, and usual cover customer service, catering and seasonal coaching and sport attendant roles. The vast majority of these staff are in secondary or tertiary education and the flexibility suits their needs. For some, it provides workplace experience and the opportunity to gain qualifications whilst others see it as an entry level career opportunity which may lead to other opportunities in the organisation. No casual staff are required to accept the offer of any work and all are able to work for other organisations. Some coaching staff work in various facilities across the region. All staff receive the National Living Wage.	Very Low
Risk	Risk Register including EU Exit related risks and mitigations	Reviewed by Board in December. This is comprehensive and clear in terms of mitigation. Board has requested that future registers report "top 5" business risks and "top 5" inherent risks. EU Exit scenarios are being monitored.	Low
	Details of internal and external audit work	Internal audit is well embedded within the organisation and is supported by a number of external parties in key areas of operation. External audit to be reviewed next cycle.	Low
	Business Continuity Planning (BCP) - maintenance and testing of plans	A Strategic Incident Plan is nearing completion, and the Hub noted the recommendation to make more resources available. Business Impact Analysis assessments will enable ASV to build BCPs. This will be made available to the Hub in the next cycle of meetings.	Low
	PREVENT policies and procedures	ASV have requested some support from ACC to facilitate policies and procedures around PREVENT and this will be provided.	Low
Finance	Management accounts and published annual accounts	Management accounts and annual accounts provided and reviewed by Hub.	Low
	Financial Procedures including delegations, Board reports	Review of Financial Regulations was scheduled for April 2019 but this has been delayed due to departure of Head of Finance, and will take place in Autumn. This will include delegations to officers. Board reports now include a section on "financial implications" as suggested by the Hub.	Medium
	Business Planning	ASV has a suite of plans and strategies rather than a single Business Plan. The Hub has requested that this is presented as a single Plan in future, and this is consistent with the requirement for all ALEOs to present Business Plans to the Council towards the end of 2019.	Low

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Bon Accord Care - Appendix F

	Assurance Request	ALEO Response	Assurance Rating
Governance	General Data Protection Regulation - Implementation Update	Action plan identifies review of breaches and decision making processes in May 2019, review of Privacy Notices in June 2019, and review of procedures in December 2019. GDPR is included in Quality Management Systems Audit for December 2019. E-learning on GDPR introduced late December 2018 and at the time of reporting 90.4% have completed this and been successful. Additional training and certification at manager/Director level and extended management team.	Low
	Zero Hours Contracts/Scottish Living Wage	Zero hours contracts - nil. Staff in casual worker pool may hold casual working contracts. ACC terms and conditions in place; no staff member is paid less than Scottish Living Wage.	Very Low
	Recruitment to post of Managing Director	Recruitment process completed and an appointment has been made, to take up post on 1st September. Interim MD remains in post until that date, at which point duties as Finance Director will resume.	Low
Risk	Risk Register including EU Exit related risks and mitigations	Risk register reported to Board in March, included consideration of EU Exit risks and mitigations. BAC have profiled their staff and the workforce risk around EU Exit is considered to be low due to reliance on EU nationals being low.	Very Low
	Details of internal and external audit work	Full details provided. A number of internal and external audits are planned and underway and the audit programme looks sufficiently robust.	Very Low
	Business Continuity Planning (BCP) - maintenance and testing of plans	All plans are currently in the process of review and are scheduled to be updated and re-issued by the end of June 2019. Bon Accord Care have a management team desktop business continuity exercise scheduled for July.	Very Low
	PREVENT policies and procedures	Nothing specific with regard to PREVENT and anti-terrorism within BAC policies and procedures although Adult Support and Protection responsibilities would include anything of this nature. All and any ASP concerns are covered by a robust procedure within BAC. and involves the appropriate sections of ACC.	Low
Finance	Management accounts and published annual accounts	Management accounts and annual accounts provided and reviewed by Hub.	Low
	Financial Procedures including delegations, Board reports	A number of finance procedures documents reviewed and issued with effect from May 2019 and are of a good quality.	
	Business Planning	Update of 5 year budget figures supplied to reflect new contract.	

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Sport Aberdeen - Appendix G

	Assurance Request	ALEO Response	Assurance Rating
Governance	General Data Protection Regulation - Implementation Update	Formal review scheduled for June 2019 which will be reported to the Board on 26th June. Requirements are being kept under continual review, including revisions to Privacy Notices for customers and staff. Lessons learned are communicated to staff. Online training provided to new staff to ensure consistency across workforce	Very Low
	Zero Hours Contracts/Scottish Living Wage	Committed to minimising the use of zero hours contracts, although these are issued when specific contracted hours of employment cannot be given, to indicate that a formal contract exists and that equivalent statutory employment rights are in existence. The Scottish Living Wage is now paid to all age categories; the National Living Wage is paid to all staff over 25 and to some positions from age 15 (eg Aquatics Helpers).	Very Low
	Integration of Garthdee Alpine Sports (GAS) and Adventure Aberdeen (AA) into Sport Aberdeen	AA fully integrated on 1st April 2018 and support service efficiencies realised. The business of GAS was transferred on 1st October 2018 and the integration of staff is complete under TUPE transfer. A review of staffing in both operations has been undertaken and efficiencies proposed as part of a single management arrangement. ICT infrastructure arrangements transferred in November 2018 with certain services scheduled to transfer at the end of the current contract. Leisure Management Information System integration will be completed by July 2019. Financial and HR services have been fully integrated with Sport Aberdeen's coached programmes, which increases opportunities for joint marketing to realise efficiencies and cross selling. Grounds maintenance has also been incorporated into Sport Aberdeen's existing contract.	Very Low
Risk Management	Risk Register including EU Exit related risks and mitigations	Reviewed on 1st February and subject to review on a 6 monthly basis. Risk Management Strategy issued 4th February and includes risk appetite statement. Strategy details how risks are monitored, reassessed and reported, enabling escalation and de-escalation. Sport Aberdeen met all requests for information and these provided strong assurance.	Very Low
	Details of internal and external audit work	Internal audit programme was submitted and comprehensive. This is due to commence within the next few months. Updates will be sought in future cycles. External audit for 2019 is scheduled to commence in early May and updates will be sought in future cycles.	Very Low
	Business Continuity Planning (BCP) - maintenance and testing of plans	BCP was subjected to a live activation in March 2019 during a partial loss of ICT systems and loss of access to HQ was tested as a desktop exercise also. Another test is scheduled. Lessons learned update requested.	Very Low
	PREVENT policies and procedures	Research and work undertaken to produce a PREVENT Strategy for Sport Aberdeen. This is due to be reviewed at the next Corporate Governance Committee in July 2019.	Very Low
	Management accounts and published annual accounts	Management accounts provided and reviewed by Hub. Positive variance in budget performance to period 11. Final GAS accounts to 30th September 2018 showing total balance and cash assets. External audit recommendations in respect of 2018/19 accounts have been reported to Corporate Governance Committee, which noted recommendations and management response. 2019/20 budget setting approved by Board.	Very Low

Finance	Financial Procedures including delegations, Board reports	Financial Regulations and financial procedures updated to reflect GAS integration, pending full review to be undertaken in June 2019. Board templates amended to add in legal implications, specifically Freedom of Information, Data Protection and Environmental Impact.	Very Low
	Business Planning	Sport Aberdeen currently in the process of updating their business plan for 2019/20 which will be provided to the Council by 30th June 2019. This will then be reported to the relevant Committee. The Board has agreed the high level financials that will underpin the business plan. This will also incorporate risk appetite, strategic risk register, SWOT and PESTLE analysis, in addition to strengthening the links with the LOIP and the outcomes agreed in the Commissioning Framework Agreement.	Very Low

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Anti-money Laundering Policy
REPORT NUMBER	GOV/19/298
DIRECTOR	
CHIEF OFFICER	Fraser Bell
REPORT AUTHOR	Deirdre Nicolson
TERMS OF REFERENCE	Remit 1.5

1. PURPOSE OF REPORT

1.1 To approve the attached Anti-money Laundering Policy.

2. RECOMMENDATION(S)

That the Committee:-

2.1 approves the attached Anti-Money Laundering Policy; and

2.2 approves the policy being incorporated into the Fraud, Bribery and Corruption Policy during the forthcoming review.

3. BACKGROUND

3.1 Aberdeen City Council has Anti-money Laundering guidance available on the [zone](#) which is now out of date and will be removed once this policy is approved.

3.2 Money Laundering Regulations apply to “relevant persons” in the following businesses

- credit and financial institutions,
 - auditors, insolvency practitioners, external accountants and tax advisers
 - independent legal professionals
 - trust or company service providers
 - estate agents
 - high value dealers (trades in goods over 10,000 euros)
 - casinos
- 3.3 The regulations require staff in those businesses to report suspected money laundering which includes determining if a suspicious transaction report (SAR) needs to be made to their money laundering reporting officer (MLRO) and onto the National Crime Agency (NCA).
- 3.4 While nearly 400,000 Suspicious Activity reports are reported to the National Crime Agency per annum and money laundering costs the UK billions each year, the laundering of large amounts of illicit funds is still primarily through the financial and professional services sectors not local government.
- 3.5 Staff within local authorities are not considered “relevant persons”. Nevertheless, CIPFA have previously issued guidance (no longer available) that local authorities should ensure that they are not used as a vehicle for money laundering and that appropriate processes are in place.
- 3.6 In drafting Aberdeen City Council’s policy, Glasgow City Council’s Anti-Money Laundering Guidance and Dundee City Council’s Anti-Money Laundering Policy were reviewed.
- 3.7 Work is ongoing to develop the Policy Framework which will include consolidation of a number of existing policies. Given the synergy with Fraud, Bribery and Corruption, it is recommended that these two policies are consolidated.

4. FINANCIAL IMPLICATIONS

- 4.1 While nearly 400,000 Suspicious Activity reports are reported to the National Crime Agency per annum and money laundering costs the UK billions each year, the laundering of large amounts of illicit funds is still primarily through the financial and professional services sectors not local government.

5. LEGAL IMPLICATIONS

- 5.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 replaced the Money Laundering Regulations 2007 and Transfer of Funds (Information on the Payer) Regulations 2007. The 2017 Regulations require “relevant persons” to apply customer due diligence measures. Local authorities are not considered “relevant persons.” Nevertheless, it is prudent, for the Council putting in place a policy and accompanying processes to identify and report any suspicious money laundering activity.

5.2 The current legislation implements European Union (EU) legislation. The Sanctions and Anti-Money Laundering Act 2018 is enabling legislation which allows the UK to impose sanctions and money laundering regulations after departure from the EU.

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Financial	Resources spent on counteracting risk of Council resources being used as a vehicle to money launder	Low	Processes implemented on a risk basis
Legal	None		
Employee	None		
Customer	Bureaucratic due diligence processes which diminish customer experience	Low	Processes implemented on a risk basis
Environment	None		
Technology	None		
Reputational	Council resources used as a vehicle to launder money	Low	Clusters risk assess opportunities and put in place processes to identify abuse

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Customer Service Design	Any due diligence processes to be risk based
Organisational Design	None
Governance	Policy to be incorporated into Fraud, Bribery and Corruption Policy.

Workforce	None
Process Design	None
Technology	While Artificial Intelligence is used by financial institutions to monitor and assess risk of money laundering, this is not deemed, at this moment in time, best use of Council resources when considering risk.
Partnerships and Alliances	None

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

<https://nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-terrorist-financing>

10. APPENDICES (if applicable)

10.1 Anti-money Laundering Policy

11. REPORT AUTHOR CONTACT DETAILS

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Tel	01224 523248

Aberdeen City Council

Anti-Money Laundering Policy

Document Control	
Effective Date	30 June 2019
Policy Number	XXXX
Version Number	1
Policy Owner	Chief Officer - Governance
Approval Authority	Audit Risk and Scrutiny Committee
Review Period	1 year
Change Control Log	

1. Purpose

- 1.1. The policy is intended to ensure that Aberdeen City Council and its employees comply with Anti-Money Laundering legislation and that appropriate risk-based action is taken to prevent, wherever possible, the Council from being used as a vehicle to launder money.
- 1.2. Money laundering is the process by which criminally obtained money or other criminal property is exchanged for “clean” money or other assets with no obvious link to their criminal origins. The aim is to legitimise the possession of such monies through circulation and this effectively leads to “clean” funds being received in exchange.
- 1.3. The term is used for a number of offences involving the integration of “dirty money”, i.e. the proceeds of crime, into the mainstream economy. In addition to the offence of money laundering there are also criminal sanctions for failing to report money laundering activity.
- 1.4. Although local authorities are not directly covered by the requirements of the Proceeds of Crime Act 2002 or Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) advises that local authorities should comply with the underlying spirit of the legislation and regulations.
- 1.5. In addition, the Council is committed to working constructively with Police Scotland and other relevant agencies in relation to combating money laundering.

2. Applicability and Scope

- 2.1. This policy impacts those functions and employees involved in financial transactions particularly cash and property transactions.

3. Responsibilities

Money Laundering Reporting Officer

- 3.1 Regulated financial services are required to appoint a Money Laundering Reporting Officer. Local authorities are not currently required to make such appointments. However, it is important that staff have a single point of contact to report any suspicion activity. The **Chief Officer – Governance** is responsible for receiving and actioning potential disclosures about money laundering activity which may include contacting the National Crime Agency and submitting a [SAR](#) (Suspicious Activity Report).

Chief Officers

- 3.2 Chief Officers are responsible for assessing the risk of their function being used as a money laundering vehicle. Chief Officers must take steps to ensure that appropriate procedures and systems are in place to assist staff in identifying potential money laundering activities and that appropriate disclosure about potential money laundering activity are submitted to the Chief Officer – Governance.

Staff

- 3.3 All staff, particularly those involved in handling cash and/or are property transactions shall be responsible for reporting suspicions of money laundering to their line manager. Line managers will report suspicions to the Chief Officer - Governance through the Fraud system at www.report-fraud.co.uk/aberdeencity.
- 3.4 Failure to comply with this policy may result in the Council's disciplinary procedure being invoked.

4. Risk

Overall Risk to the Council

- 4.1 On a yearly basis the Council takes in substantial income from its Customers. In addition to Council tax and Non-domestic rates, income received ranges from parking meters to substantial payments of rents for commercial properties. While the vast majority of payments received are legitimate, opportunities to money launder can arise which is a risk, albeit low, to the Council.
- 4.2 There is no single flag which would identify money laundering, however, the following may, in some cases, be an indication of money laundering activity:
- Cash payments over £5,000
 - Use of cash where other means of payment are normal
 - Overpayments by a customer
 - Unusual request for cancellation or reversal of an earlier transaction
 - Requests for release of customer account details
 - Customer requesting refunds to be transferred overseas, particularly to a high-risk country or tax haven
 - Payments of lower amounts where cash is not the usual means of payment
 - Use of new/shell companies
 - A secretive customer for example one who refuses to provide requested information without a reasonable explanation
 - Illogical customer transaction such as unnecessary routing or receipt of funds from third parties or through third party accounts
 - Involvement of an unconnected third party without logical reason or explanation
 - Absence of an obvious legitimate source of funds
 - Concern about the honesty and integrity of the customer
 - Unusual transaction or way of conducting business without reasonable explanation
 - Unusual transactions or ways of conducting business
 - Individuals and companies which are insolvent yet have funds
 - Transaction at substantially above fair market value
 - Funds received for deposits or prior to completion from unexpected sources
 - Movement of funds to/from overseas particularly from a higher risk country (these include

- 4.3 An assessment as to the overall risk that the Council may be used as a vehicle for money-laundering has been assessed as low.

Risk to individual Functions:

- 4.4 Individual Clusters must assess the potential for their service delivery being used as a potential money laundering vehicle and include in their risk register as appropriate.
- 4.5 In the event that the Cluster identifies that there is a substantial risk, then the Chief Officer must put in place suitable processes and systems for ensuring that controls, including customer due diligence, are in place to identify money laundering activities. These could include:
- a. Gathering evidence to ascertain the true identity of customers or companies including:
 - Copies of Identification documents (for example, passport, driving licence, Armed Forces ID card and National Identity cards)
 - Proof of address
 - Utilities Bill
 - Bank Statements
 - Companies House Search
 - Audited accounts
 - b. Additional monitoring of the business relationship
 - c. Implementing a procedure for reporting suspicions on money laundering
 - d. Maintaining a record keeping procedure (e.g. for evidence of identity obtained, details of transactions undertaken, for at least 5 years afterwards) in line with Data Protection legislation
 - e. Additional checks may be required if not physically present
- 4.6 In addition, the Chief Officer must consider if the risk should be added to their cluster's risk register.

5. Policy Performance

- 5.1 It is expected that Internal and external audits will include this policy and any resulting operational procedures as part of the audit scope for future audits particularly audits of the cash collection system and cheque payments systems.
- 5.2 Any instances of money laundering will be reported to the Corporate Management Team and the Audit, Risk and Scrutiny Committee.

6. Consultation

- 6.1 The draft policy has been shared with Police Scotland whose comments have been incorporated.
- 6.2 There is no requirement to consult with members of the public.

7. Design and Design Principles

- 7.1 This policy has taken into consideration organisational design and governance principles of Aberdeen City Council's Target Operating Model.

8. Housekeeping

- 8.1 The Financial Regulations include a link to Money Laundering Guidance which will be replaced with a link to this policy once approved.
- 8.2 Feedback and any suggestions should be sent to the Chief Officer – Governance.

9. Sharing

- 9.1 This policy will be made available on the Zone and the Council's website.

10. Definitions

- 10.1 Not applicable

11. References and Links

- 11.1 Related policies:

- [Managing Discipline](#)
- [Corporate Information Policy](#)
- [Fraud Bribery and Corruption Policy](#)
- [Financial Regulations](#)

- 11.2 Procedures

- [Corporate Information Handbook](#)

- 11.3 Supporting documentation

- [Proceeds of Crime Act 2002](#)
- [Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017/692](#)
- [Sanctions and Anti Money Laundering Act 2018](#)
- [General Data Protection Regulation 2016/679](#)
- [Data Protection Act 2018](#)

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Progress
REPORT NUMBER	IA/19/009
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2 and 2.4

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of Internal Audit's progress against the approved 2018/19 and 2019/20 Internal Audit plans.

2. RECOMMENDATIONS

- 2.1 The Committee is requested to review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 The Internal Audit plan for 2018/19 was approved by the Audit, Risk and Scrutiny Committee on 22 February 2018 and that for 2019/20 was approved on 14 February 2019. The plans included an indicative date by when it was planned to report each audit to Committee 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 audits contained in the 2018/19 plan. A summary is shown in the following table.

2018/19 Planned Audit Status	As at 13 June 2019 by Original Target Committee Date						%age
	Jun 18	Sep 18	Dec 18	Feb 19	Apr 19	Total	
Complete	1	9	5	5	2	22	88.0
Draft Report Issued	0	0	0	0	0	0	0.0
Work in Progress	0	0	0	0	1	1	4.0
(*) Moved to future year	0	0	0	1	1	2	8.0
Total	1	9	5	6	4	25	100.0

(*) As agreed by the Audit, Risk and Scrutiny Committee on 14 February 2019

3.3 Appendix B to this report shows progress with the audits contained in the 2019/20 plan. A summary is shown in the following table.

2019/20 Planned Audit Status	As at 13 June 2019 by Original Target Committee Date						%age
	Jun 19	Sep 19	Dec 19	Feb 20	Apr 20	Total	
Complete	0	0	0	0	0	0	0.0
Draft Report Issued	0	0	0	0	0	0	0.0
Work in Progress	2	0	0	0	0	2	7.4
To Start	0	8	7	5	5	25	92.6
Total	2	8	7	5	5	27	100.0

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. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is to report Internal Audit’s progress to Committee. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Appendix A – Progress with 2018/19 Internal Audit Plan.
- 9.2 Appendix B – Progress with 2019/20 Internal Audit Plan.

10. REPORT AUTHOR DETAILS

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 (01467) 537861

APPENDIX A

PROGRESS WITH 2018/19 INTERNAL AUDIT PLAN

(Note – text in italics represents updates provided to Committee previously)

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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Originally Planned for September 2018 Committee

Health and Social Care Partnership Charging Policy	To provide assurance that there is a clear charging policy in place and that it is being complied with.	Draft report due to be issued	21.12.18	Amber	<i>Delayed at request of Service - developing a new strategy</i>
		Draft report issued	11.03.19		
		Management response due	25.03.19	Amber	<i>No response to draft report at time of finalising Committee report.</i>
		Reminders sent:	12.04.19 15.05.19		
		Management response received	24.05.19	Red	
		Final draft issued to management	30.05.19	Green	
		Management confirmation received	10.06.19	Amber	
Final report issued	11.06.19	Green			
Original target Committee date	25.09.18	Amber			
<i>Revised Committee Date</i>	<i>30.04.19</i>				
Revised Committee Date	26.06.19				
Actual Submission to Committee	26.06.19				

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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Originally Planned for December 2018 Committee

Data security in a cloud-based environment	To provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud.	Draft report due to be issued Draft report issued	28.02.19 20.03.19	Amber	<i>There were delays in information being provided by the Service as requested by Internal Audit. Subsequently, the Auditor undertaking this audit left Internal Audit.</i>
		Management response due Management response received	03.04.19 01.04.19	Green	<i>Discussions are ongoing regarding the draft report.</i>
		Final draft issued to management Management confirmation received	14.05.19 23.05.19	Amber	Following various meetings, conversations, and provision of additional information.
		Final report issued	24.05.19	Green	
		Original target Committee date <i>Revised Committee Date</i> Revised Committee Date Actual Submission to Committee	04.12.18 30.04.19 26.06.19 26.06.19	Amber	

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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Originally Planned for April 2019 Committee

Music Centre	To provide assurance that procedures have been improved following completion of work undertaken by Corporate Investigation Team - review of income, expenditure (procurement and payroll), and inventory	Draft report due to be issued	05.03.19	Amber	<i>Delays in completing PEF audit.</i>
		Revised due date	29.03.19		
		Draft report issued	04.04.19		
		Management response due	02.05.19	Green Amber	Further discussions held to discuss report
		Management responses received: Education Finance	30.04.19 14.05.19		
		Final draft issued to management Management confirmation received	15.05.19 15.05.19	Green	
Final Report Issued	16.05.19	Green			
Original target Committee date	30.04.19	Amber			
Revised Committee date	26.06.19				
Actual Submission to Committee	26.06.19				

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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Originally Planned for April 2019 Committee (continued)

Management of high-risk contracts	To focus on recent identified issues: <ul style="list-style-type: none"> - 3rd Don Crossing - Photovoltaic Panels To include data / intelligence used for monitoring and escalation of risk.	Draft report due to be issued	05.07.19		<i>Work has commenced on this review but there were delays in identifying the appropriate officers to discuss it with.</i>
		Original target Committee date <i>Revised Committee date</i> Revised Committee date	30.04.19 26.06.19 25.09.19	Red	Progress with this audit continues to be slow as information requested from various services has yet to be received.

APPENDIX B

PROGRESS WITH 2019/20 INTERNAL AUDIT PLAN

(Note – text in italics represents updates provided to Committee previously)

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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Originally Planned for June 2019 Committee

Shutdown of Non-essential Spend	To provide assurance that the shutdown of non-essential spend has been effective in achieving its objective and instructions were complied with.	Draft report due to be issued Changed to	30.04.19 05.07.19	Amber	Not all data requested from Finance, which was to be provided to Internal Audit by 24.05.19, has been received – delayed by year-end process.
		Original target Committee date Revised Committee Date	26.06.19 25.09.19		
Income Generation	To provide assurance that budgeted income generation is based on robust assumptions and is being realised.	Draft report due to be issued Changed to	30.04.19 28.06.19	Amber	Due to delays in information being received from Services.
		Original target Committee date Revised Committee Date	26.06.19 25.09.19		

SUBJECT / SCOPE	OBJECTIVE	Progress as at 13 June 2019	Red Amber Green	Comment where applicable
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No Planned Reporting to Committee

<p>Interreg Projects where Aberdeen City Council is involved as a Lead Partner and / or Project Partner</p>	<p>To certify required grant claims in accordance with Programme requirements.</p> <p><i>There will be no specific reporting to management or the Audit, Risk and Scrutiny Committee in relation to these grant claims unless a significant issue is identified.</i></p>	<p><u>April 2019:</u> ACE Retrofitting Project ACC Partner Claim for reporting period 4 certified.</p> <p><u>May 2019:</u> BEGIN Partner Claim for reporting period 4 in progress. HyTrEc 2 Partner Claim for period reporting period 4 in progress.</p>		
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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Reports – Follow-up of Agreed Recommendations
REPORT NUMBER	IA/19/010
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.3

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of progress made by Services with implementing recommendations that have been agreed in Internal Audit reports.

2. RECOMMENDATIONS

The Committee is requested to:

- 2.1 Review, discuss and comment on the issues raised within this report and the attached appendices.

3. BACKGROUND / MAIN ISSUES

- 3.1 The Public Sector Internal Audit Standards require that Internal Audit monitors the implementation of agreed recommendations until they are implemented by management. The Corporate Management Team and the Audit, Risk and Scrutiny Committee receive a report from Internal Audit at each of its meeting which shows progress made.

- 3.2 However, circumstances may change following completion of an Internal Audit. Having investigated implementation more fully, a recommendation may, for example, take longer to implement, or the cost of implementation may be higher, than originally anticipated. In these circumstances either more time may be required, or management may conclude, based on the risk to the organisation, that the recommendation should no longer be implemented. Where this is the case, management will make recommendations regarding how the agreed recommendation should be treated.

3.3 The attached appendices 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 2019 have been completed, these are no longer shown in the appendices.

3.4 Where recommendations have not been completed by their original due date, reasons are provided along with recommendations from management (where appropriate) regarding how and when the agreed Internal Audit recommendation will be concluded or whether it should no longer be implemented.

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. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An 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. As a result, there will be

	no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Appendix A – Position with Agreed Recommendations – Summary.
- 9.2 Appendix B – Position with Agreed Recommendations – Cross Service.
- 9.3 Appendix C – Position with Agreed Recommendations – Customer.
- 9.4 Appendix D – Position with Agreed Recommendations – Operations.
- 9.5 Appendix E – Position with Agreed Recommendations – Resources.
- 9.6 Appendix F – Position with Agreed Recommendations – Health and Social Care Partnership.
- 9.7 Appendix G - Governance.

10. REPORT AUTHOR DETAILS

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APPENDIX A – SUMMARY

POSITION WITH AGREED RECOMMENDATIONS AS AT 13 JUNE 2019

The following table provides a summary of progress being made by Services with completing agreed recommendations.

On 30 April 2019, the Committee was advised that, as at 16 April 2019, there were 14 recommendations which were due to have been completed by 31 December 2018 which were not fully complete. This has now reduced to 8.

The total not fully complete, which had an original due date of before 30 April 2019, is 21. Full details relating to progress, on a report by report basis, are shown in appendices B to G.

SERVICE	Agreed in reports shown in Appendices B to G	Due for completion by 28.02.19	Confirmed complete by Service	New in March and April 2019	Confirmed complete by Service	Not fully complete by original due date	Major	Significant	Important
Cross Service	27	1	1	2	2	0	0	0	0
Commissioning	0	0	0	0	0	0	0	0	0
Customer	21	3	3	7	4	3	0	1	2
Operations	24	17	16	6	0	7	1	6	0
Resources	38	32	27	6	2	9	0	8	1
Health & Social Care	50	34	32	0	0	2	0	2	0
Governance	3	1	1	1	1	0	0	0	0
Total	163	88	80	22	9	21	1	17	3

KEY TO COLOURING USED IN FOLLOWING APPENDICES

Recommendation Grading:

Grading	Definition
Major	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. Financial Regulations have been consistently breached.
Significant	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	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.

Length of time overdue

Over 12 months
6 to 12 months
Less than 6 months

APPENDIX B

CROSS SERVICE

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	
AC1914	Procurement Compliance	April 2019	15	0	0	0	0
AC1918	Health and Safety	February 2019	12	3	3	0	0

APPENDIX C

CUSTOMER

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1909	Timesheets and Allowances	August 2018	7	4	4	0	0
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AC1917	NPS Housing System	February 2019	14	6	3	3	1 Significant 2 Important
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Early Intervention and Community Empowerment	Risks of not carrying out tests should be assessed and documented where scheduled tests are not completed (2.3.3)	Important	The Service has advised that it has a comprehensive test plan and is currently identifying critical functionality to determine where tests are required. Where tests are deemed not required, the Service will work to assess and document the risk. This is scheduled to be completed by the end of July 2019.
		March 2019	
Early Intervention and Community Empowerment	The Systems Team work plan should be updated to include 2018/19 team tasks (2.3.6)	Significant	The Service has advised that the Systems Team has specific work tasks and is currently exploring more efficient and automated methods of monitoring progress. This will be complete by the end of August 2019.
		March 2019	
Early Intervention and Community Empowerment	The Service should introduce specific new user forms to demonstrate access requirements and authorisation (2.4.1a)	Important	The Service has advised that the existing new user form in Service Now (IT Service Management tool) has been changed to incorporate NPS Housing. This is being tested and is scheduled to be live by the end of June 2019.
		April 2019	

APPENDIX D

OPERATIONS

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1602 AW	Craft Workers Terms and Conditions	October 2015	9	9	8	1	1 Major
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The position with the overdue recommendation is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Operations and Protective Services	The Service should renegotiate the Agreement based on current working practice (2.2.6)	Major June 2016	<ul style="list-style-type: none"> • Committee advised on 27 September 2016 that this would be complete by December 2016. • Committee advised on 23 February 2017 that this would be complete as soon as possible in 2017. • Committee advised on 22 June 2017 that this would be complete in the near future. • Committee advised on 26 September 2017 that this would be complete by June 2018. • Committee advised on 25 September 2018 that this is to be subject to review and will be included in the work-plan for delivery of the transformation programme. • Committee advised on 4 December 2018 that this would be resolved by April 2019 • Committee advised on 30 April 2019 that this would be resolved by August 2019. <p>The latest update from the Service is that consultation on the proposed agreement, with Unions and employees, will commence in June 2019. Subject to the success of these negotiations it is intended that a report will be submitted to the 1 October 2019 meeting of the Staff Governance Committee for approval. The Service has stated that progress with this action has been delayed on several occasions due to circumstances out with its control, and it is anticipated that the current actions will resolve the outstanding action.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1817	Vehicle Usage	January 2018	8	8	4	4	4 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Operations and Protective Services	The Council should develop and roll out a single policy on the use of Council owned vehicles, ensuring this includes whether and in which circumstances non-business use or carriage of passengers is allowed (2.1.4)	Significant	The Service has advised that discussions are on-going with a view to developing a single policy on these issues. Following consultation, the policy will need to be agreed by the appropriate committee. In order to allow for the completion of the discussions, consultations and relevant committee approvals, this will now be complete in October 2019.
		April 2019	
Operations and Protective Services	Fleet should ensure that all Services have access to regular reports on vehicle use, know how to check these and what issues to consider (2.2.7)	Significant	The Service has advised that this will be resolved through the procurement of a telematics system, a tender for which is due out to be issued May 2019. The aim is, subject to the completion of the procurement process and implementation of the system, to produce reports for user services by October 2019.
		April 2019	
Operations and Protective Services	Fleet utilisation should be reviewed corporately to maximise efficiency (2.2.14)	Significant	As for 2.2.7, above.
		April 2019	

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

(AC1817 – Vehicle Usage – Continued)

Chief Officer	Recommendation	Grading / Due Date	Position
Operations and Protective Services	A corporate review is required on Services allowing employees to take vehicles home and use them for day to day commuting, to ensure such instances present a net benefit to the Council (2.2.22)	Significant April 2019	As for 2.1.4, above.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1903	Devolved School Management	November 2018	7	6	4	2	2 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Corporate Landlord	The DSM Budget Allocation Formulae and Operational procedure and Quality Assurance Framework - Financial Management schools procedure should be updated to reflect current devolved budget arrangements (2.1.8)	Significant	Internal Audit is awaiting an update on progress.
		March 2019	
Corporate Landlord	A procedure should be prepared covering the DSM review process (2.9.1)	Significant	Internal Audit is awaiting an update on progress.
		April 2019	

APPENDIX E

RESOURCES

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1806	Corporate Landlord Responsibilities	September 2017	9	9	6	3	3 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Corporate Landlord	The Service should formalise the procedures used to demonstrate compliance with its Corporate Landlord Responsibilities and other cyclical maintenance activities (2.2.3)	Significant	<ul style="list-style-type: none"> Committee advised on 25 September 2018 that this would be complete by October 2018. Committee advised on 14 February 2019 that Internal Audit was awaiting an update on progress from the Service. <p>The latest update from the Service is that the procedure has been agreed between the various parts of the Council undertaking tasks, through a central record of information and responsibilities. Internal Audit has requested that a copy be provided before the recommendation is marked off as complete and receipt of this is awaited.</p>
		June 2018	
Corporate Landlord	The Service should ensure data regarding its Corporate Landlord Responsibilities is maintained centrally, accurately and up to date (2.3.8)	Significant	<ul style="list-style-type: none"> Committee advised on 25 September 2018 that this would be complete by October 2018. Committee advised on 14 February 2019 that Internal Audit was awaiting an update on progress from the Service. <p>The latest update from the Service is that records of what works are undertaken, who has responsibility for works, what data is recorded and where it is held has been collated. From this a reporting dashboard is being developed to highlight weakness and give greater assurance. This will be piloted during June 2019.</p>
		June 2018	

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

(AC1806 – Corporate Landlord – Continued)

Chief Officer	Recommendation	Grading / Due Date	Position
Corporate Landlord	The Service should ensure it has assurance that all property in which the Council has an interest is statutorily compliant (2.3.13)	Significant June 2018	<ul style="list-style-type: none"> • Committee advised on 25 September 2018 that this would be complete by October 2018. • Committee advised on 14 February 2019 that Internal Audit was awaiting an update on progress from the Service. <p>The latest update from the Service is that records of what works are undertaken, who has responsibility for works, what data is recorded and where it is held has been collated. From this a reporting dashboard is being developed to highlight weakness and give greater assurance. This will be piloted during June 2019.</p>

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1819	Capital Contracts	February 2018	8	8	7	1	1 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Capital	The Service should review estimating and scheduling to ensure it can demonstrate that best value is being achieved (2.4.12)	Significant April 2019	The Service has confirmed that this will be complete by the end of June 2019.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1823	Fixed Asset Register	August 2018	7	7	4	3	3 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Finance	The Service should investigate the revaluation reserve errors and update procedures to avoid in future (2.4.4)	Significant	The Service has advised that as this is a year-end procedure this is currently being worked on. The procedure will be updated by the end of June 2019.
		March 2019	
Finance	Accounting transactions should be reflected in the ledger (2.6.1a)	Significant	The Service has advised that, due to resourcing issues, this has not been undertaken, but work is scheduled to begin on this once the Annual Accounts audit has been completed. This will now be complete by the end of September 2019.
		April 2019	
Finance	The ledger should be reconciled to the fixed asset register and Financial Statements (2.6.1b)	Significant	As for 2.6.1a, above.
		April 2019	

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1902	Debtors System	August 2018	14	14	12	2	1 Significant 1 Important
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Finance	Procedures should be updated as required and issued to appropriate staff (2.1.4)	Significant	<ul style="list-style-type: none"> Committee advised on 14 February 2019 that this would be complete by May 2019. <p>The latest update from the Service is that there are a large number of separate procedures that are now being updated following completion of the main year end tasks. This will now be completed by the end of June 2019.</p>
		December 2018	
Finance	The Service should revise aged debt reports to highlight where recovery action is required (2.7.6)	Important	<ul style="list-style-type: none"> Committee advised on 14 February 2019 that this would be complete by June 2019.
		December 2018	

APPENDIX F

HEALTH AND SOCIAL CARE **PARTNERSHIP**

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1617	Self-Directed Support	October 2016	21	21	20	1	1 Significant
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Progress with the overdue recommendations is detailed below:

Chief Officer	Recommendation	Grading / Due Date	Position
Head of Strategy and Transformation (ACC H&SCP)	The Service should finalise and implement the Contributing to Your Care and Support Policy and guidance (2.4.2)	Significant	<ul style="list-style-type: none"> Committee advised on 22 June 2017 that this would be complete by October 2017. Committee advised on 23 November 2017 that this would be complete by April 2018. Committee advised on 8 May 2018 that this would be complete by September 2018. Committee advised on 25 September 2018 that this would be complete by March 2019. Committee advised on 30 April 2019 that this would be complete by July 2019.
		March 2017	

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	

AC1828	Care Management	April 2018	13	13	12	1	1 Significant
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The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Chief Finance Officer (IJB)	The Service should ensure arrangements for budgeting, managing payments via CareFirst, and monitoring third party use of funds, are developed for SDS Option 2 (SDS Board action plan) (2.3.5)	Significant	<ul style="list-style-type: none"> Committee advised on 4 December 2018 that this would be complete by April 2019. Committee advised on 30 April 2019 that this would be complete by July 2019.
		September 2018	

AC1919	Criminal Justice	April 2019	8	0	0	0	0
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AC1920	National Care Home Contract	January 2019	8	0	0	0	0
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APPENDIX G

GOVERNANCE

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 30.04.19	Confirmed Implemented by Service	Not implemented by original due date	
AC1916	Prevention of Fraud, Bribery and Corruption	February 2019	3	2	2	0	0

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	14 February 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC1925 – Music Service
REPORT NUMBER	IA/AC1925
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Music Service.

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 the Music Service.

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. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An 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. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1925 – Music Service.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



Internal Audit Report

Operations

Music Service

Issued to:

Rob Polkinghorne, Chief Operating Officer
Graeme Simpson, Chief Officer – Integrated Children’s and Family Services
Eleanor Shepherd, Chief Education Officer
Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
External Audit

EXECUTIVE SUMMARY

The Aberdeen Music Service (AMS) within Integrated Children's and Family Services (ICFS) provides non-statutory tuition in musical instruments within schools. It also hosts music ensembles in the evenings and on Saturdays at the Music Centre based at Northfield Academy. The net cost of providing instrumental tuition for 2018/19 was £922,000 (2017/18 - £1,084,000), this includes £448,000 (2017/18 - £383,000) relating to music tuition income

The objective of this audit was to provide assurance over Music Centre procedures for collecting income, entitlement to concessionary tuition, procurement, payroll, and the inventory of musical instruments and sheet music.

Unlike SQA music courses, tuition delivered by the Music Service is non-statutory and, unlike schools, there is no improvement plan in place for the Music Service. With ongoing budget pressures affecting all Council service areas, it is essential that clear direction is in place. The Cluster has agreed to set out a short, medium and long-term Improvement Plan for the Music Service.

The Music Service has procedures which cover certain aspects of the processes being applied but these do not cover the whole procedure in a step-by-step format, from an initial request through to cessation of tuition. The Cluster has agreed to formalise processes supporting the provision of Music Tuition.

Fees for music tuition are agreed by full Council when agreeing its annual revenue budget. However, the Cluster applies concessions against these fees which have not been formally agreed by Council. The Cluster has agreed to include concessions with the annual charges in the budget report to full Council for 2020/21.

The process for managing pupil registration, charging for lessons, and income collection is largely manual, and a number of issues were identified with it. Payment requests are sent by email to parents / guardians and do not specify the amount due. Errors were identified in the Service's records which included the same email address being allocated to multiple pupils which will have resulted in some parents receiving many payment requests and others none. Income received through the Council's cash receipting system could not be fully agreed to the Service's records. A large percentage of concessions were incorrectly applied and continuing eligibility to concessions was not being confirmed. Others, who may have been entitled to concessions were not in receipt of them. The process for following up unpaid debts was not considered to be robust. In view of the issues identified it is not possible to give assurance that lessons have been correctly charged for or that income due is complete.

Whilst the customer interface is undergoing improved digitalisation, improvements in the back-office process are required to ensure that charges levied are correct, transparent and appropriately accounted for. The Cluster has agreed to review and update processes accordingly.

The Cluster has recently introduced a spreadsheet-based inventory of instruments and sheet music. Internal Audit tested the inventory records to the physical stock present on a sample basis and found only a 31.8% accuracy. The records also omitted instruments from one store with a value of £25,000. Other exceptions were noted in relation to the way records were being maintained. The Cluster has agreed to undertake a full inventory check, obtain replacement costs for all items for insurance purposes, and to replace the spreadsheet-based system.

1. INTRODUCTION

- 1.1 The Aberdeen Music Service (AMS) within Integrated Children's and Family Services (ICFS) provides non statutory tuition in musical instruments within schools. It also hosts music ensembles in the evenings and on Saturdays at the Music Centre based at Northfield Academy.
- 1.2 A termly charge is made for instrument tuition and access to the service provided at the Music Centres. Annual fees for 2018/19 are: individual lessons - £340; and group lessons - £272. There is no extra charge for attendance at the Music Centre, although pupils not receiving tuition are charged £50 per term.
- 1.3 A 50% concession is applied to the younger child / children when two or more siblings are applying for tuition, but only on one instrument, with any subsequent instrument charged at full rate. A 50% concession is also applied where a pupil is in receipt of a clothing grant. Pupils registered for free school meals are exempt from music tuition fees, as are senior phase (S4 to S6) pupils receiving tuition on an instrument for a Scottish Qualification Authority (SQA) course at National 5 or above.
- 1.4 2,111 pupils were registered as receiving music tuition on 12 March 2019. These figures are broken down as follows:

	No of Pupils
Full Rate Tuition	1,606
Sibling Concession	188
Clothing Grants	6
Total Paying Pupils	1,800
Pupils taking an SQA Course	165
Free School Meals Exemption	146
Total Receiving Free Tuition	311
Total Pupils	2,111

- 1.5 The net cost of providing instrumental tuition for 2018/19 was £922,000 (2017/18 - £1,084,000), this includes £448,000 (2017/18 - £383,000) relating to music tuition income.
- 1.6 The objective of this audit was to provide assurance over Music Centre procedures for collecting income, entitlement to concessionary tuition, procurement, payroll, and the inventory of musical instruments and sheet music.
- 1.7 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Eleanor Sheppard, Chief Education Officer and Beth Edwards, Music Co-Ordinator.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 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 that correct and consistent instructions are available to staff; important in the event of an experienced employee being absent or leaving.
- 2.1.2 The Music Service procedures are set out in three documents: Procedure for instruments and equipment; Music Service income collection procedures; and Guidance on how to use register / pupil list. Each was updated for the 2018/19 school year.
- 2.1.3 The procedures cover certain aspects of the processes being applied within the Music Service but do not cover the whole procedure in a step-by-step format, from the initial request through to cessation of tuition and all the processes between. The following omissions were noted:
- operation of the waiting list;
 - archiving and destruction of personal information;
 - frequency of checks on entitlement to concessions;
 - application of concessions part way through a term;
 - filing system for new start forms;
 - unpaid debt follow up process (managed by the Service);
 - when a debtors invoice should be raised to recover unpaid debts;
 - recording of deferred payments;
 - budget monitoring;
 - inventory checks;
 - completion of the spreadsheet of current pupils receiving tuition (Pupil Spreadsheet);
 - a legend for the Pupil spreadsheet for completing details and for colour coding.

Recommendation

Processes supporting the provision of Music Tuition should be formalised in written procedures.

Service Response / Action

Agreed. A working group will be set up to ensure a full set of procedures will be in place.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.2 Strategy

- 2.2.1 Unlike SQA music courses, tuition delivered by the Music Service is non-statutory. Currently, unlike schools, the Cluster has no improvement plans for the Music Service. With ongoing budget pressures affecting all Council service areas, it is essential that clear direction is in place, to ensure the Service priorities are established, in accordance with the Council's transformation programme, and that Best Value is achieved, with the resources available.

Recommendation

The Cluster should set out a short, medium and long-term Improvement Plan for the Music Service.

Service Response / Action

Agreed.

Implementation Date

December 2019

Responsible Officer

Quality Improvement Manager
(Acting)

Grading

Significant within audited
area

2.3 Registration

2.3.1 Digital and Technology is in the process of digitising the Music Service registration process, however at the time of the audit, the whole process was still reliant on manuscript forms, and administrative staff manually updating the waiting lists and Pupil Spreadsheet. The Council's website provides information to parents regarding: lessons; fees; exemptions; and instrument loan terms and conditions. Parents or guardians are required to print off the form and complete it in manuscript, before either returning to a tutor, or scanning and emailing to the Music Service group email address. If a space is available, determined by the music instructor covering that school, they will be required to complete a new start form. The pupil will be added to the tutor's class register spreadsheet and the support staff will update their details on the Pupil Spreadsheet for that academic year. If a space is not available, they will be placed on the waiting list until one is.

2.3.2 The Service's privacy notice states that records will be held for five years after a pupil ceases tuition. This is within the suggested retention period set out by the Scottish Council on Archive Record Retention of seven years. The current process for registration forms and any supporting documentation is to scan the manuscript forms and file them on the network drive, in folders specific to each pupil, by date registered, with the paper copy registration form destroyed at the end of the school year. There is currently no process whereby the electronic records are moved into an archive folder when tuition ceases, therefore destruction of the records after five years cannot be easily accomplished. Individuals have the right to be informed on how their data will be processed under GDPR through a privacy notice, and the related retention period. Erasure of data is a form of data processing and the Council risks penalties and reputational damage for processing / not processing data in a manner described by the related privacy notice.

Recommendation

An archiving process should be established which facilitates the destruction of records in accordance with the privacy notice.

Service Response / Action

Agreed. Leavers folder will be created in the O Drive and updated on a termly basis. Records will be kept for a maximum of five years and then the folder will be deleted.

Implementation Date

August 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited
area

- 2.3.3 The current system is completely manual, with the information updated on a spreadsheet from the manuscript forms. The system provides no unique identifier for each pupil. It relies on a combination of information, including: pupil name, parent email addresses, and school. The lack of a unique identifier increases the risk of information not being applied to the correct pupil or extra administration to identify the correct record for updating

Recommendation

The Service should make use of a unique identifier to enable the correct processing of information within music tuition.

Service Response / Action

Agreed. The date of birth and surname will be used as a means of ensuring the correct processing of information. DoB will be required as part of the online registration process.

Implementation Date

August 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

- 2.3.4 A sample of registrations completed in the current school year was reviewed and it was confirmed that registration details on the spreadsheet agreed. A follow up analysis of the registration / payment spreadsheet was then undertaken to ascertain the accuracy and completeness of the historical information held. This found:

- 179 records without confirmation of group or individual lesson, making appropriate charge difficult to determine;
- 159 missing the email address used to send out payment requests;
- 95 duplicate email addresses for unrelated pupils, meaning some parents received multiple requests and some none;
- the free lesson column holding 42 different narratives when only four are required (SQA, sibling, free school meals, and clothing grant);
- the free lessons column including “?” meaning the exemption granted cannot be verified;
- no carry forward balances from the previous school year to calculate outstanding debt.

- 2.3.5 Since the spreadsheet is the only source of information for the payment recording process, it is essential that the information is complete and accurate.

Recommendation

The spreadsheet should be updated and reviewed to confirm completeness / accuracy.

Service Response / Action

Agreed. A key will be created to ensure a consistent approach to recording information by using a pre-set index/legend or colours. The online registration process will aid in the smooth and accurate transition of data. Concessions impact on charges e.g. FSM therefore should be recorded consistently.

Implementation Date

December 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.4 Annual Fee Increase

- 2.4.1 The fees for the school year starting August 2019 were agreed by Council on 5 March 2019. The new charging scheme included three new categories as detailed below:

Category	Unit	2018/19	% change	2019/20	Note
Individual Lessons	per year	340.00	18%	400.00	
Group Lessons	per year	272.00	-11%	242.00	
Paired lessons	per year	N/A	N/A	280.00	New
New start registration fee	per year	N/A	N/A	10.00	New
Hire Charge	per year	N/A	N/A	85.00	New per instrument

2.4.2 The new fees were advertised on the website and reviewed as part of the testing. It was found that the hire charge and group lessons fees were incorrectly recorded at lower rates. This was notified to the Music Service who confirmed that the correct rates had been submitted for publishing and the Co-ordinator has contacted the website editor to have the details corrected.

2.4.3 The Music Service has a set concession process which is applied to all charges due. However, unlike charges, the concessionary scheme has not been approved by Council. As the scheme has a direct effect on the level of income to be generated then it should be approved by Council.

Recommendation

Music tuition concessions should be approved by Council with proposed charges.

Service Response / Action

Agreed. Concessions will be included with the annual charges in the budget report for 2020/21.

Implementation Date

March 2020

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.5 Payments

2.5.1 The Music Service uses a spreadsheet to generate payment requests, although only to the extent of copying and pasting the email addresses, held in the pupil spreadsheet, into the request emails to be sent to parents. Emailed payment requests are generic and do not personalise the payment being requested for each pupil. It is left to the parent to calculate how much is due, meaning they must know what category of lesson their child is receiving and what concession they are entitled to. The spreadsheet does not record the value of the fees that each pupil is due to pay.

2.5.2 Payments can be made via the Council's online payment system, over the phone, or at any of the Council's pay points. No cash/cheques are processed by Music Service staff. The payments are not interfaced to the spreadsheet, and the Senior Support Assistant is required to access a daily report from the Council's cash receipting system for all payments received and transfer the information to the spreadsheet. As there is no reference to the actual value due, the payments recorded on the Pupil Spreadsheet can differ from how much should actually be paid. However, this is not checked by the Senior Support Assistant.

2.5.3 There is no set timetable for issuing payment requests or follow up requests for unpaid fees. The Service tries to issue a request four weeks before the end of term with a follow up "just before the end of term" and then "once or twice to those that still haven't paid". As indicated in paragraph 2.1.3, there is no written procedure for the process. Since there

is no record of how much is actually due, follow up requests are only based on complete non-payment, not if the payment was incorrect (higher or lower than due).

- 2.5.4 The pupil spreadsheet does not link to the class registration spreadsheets maintained independently by each tutor, there is therefore no guarantee that all pupils receiving tuition are being charged. The pupil spreadsheet also has no audit trail, or validation process to prevent lines from being deleted.

Recommendation

If the spreadsheet is to remain the management tool for payment requests / recovery, then the following changes should be implemented:

- a) A payment request timetable for the whole school year should be advertised in advance of the school year commencing.
- b) The actual fee due per term should be recorded.
- c) The payment requests issued to parents should reflect the actual fees due.
- d) A reconciliation between the attendance and payments records should be carried out before the issue of the termly payment request.
- e) Differences in payments made compared to fees due should be investigated.

Service Response / Action

Agreed. While digitalisation requires the customer to pay in advance there will still be a requirement to email customers before the start of each term along with maintaining the payment records manually.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.6 Cash Receipting Reconciliation

- 2.6.1 Currently there is no reconciliation carried out between the income recorded on the Council's cash receipting system and the payments recorded on the pupil spreadsheet. Internal Audit reviewed the overall values in both systems between July 2018 and March 2019, which showed cash receipting income of £299,965 and pupil list payments of £300,361, an apparent difference of £396.

- 2.6.2 However further testing identified larger differences:

- Number of payments in cash receipting system 1,606
- Number of payments in pupil list 1,429

1,280 payments where email address in spreadsheet and cash receipting system match of which:

- 874 recorded payments have exact payment value match (£173,377)
- 153 where cash receipting system payments (£43,058) exceeded pupil spreadsheet payments (£30,206) by £12,852
- 253 pupil spreadsheet payments (£71,161) exceed cash receipting system payments (£40,037) by £31,124

Entries where email address does not match:

- 326 cash receipting system payments (£43,493) which could not be matched to pupil spreadsheet payments

- 149 pupil spreadsheet payments which could not be matched to cash receipting system payments (£25,617)

2.6.3 Such differences, if not identified and corrected, could result in parents being chased for payments they have already made, or not being chased when they should. Improved accuracy in updating the spreadsheet, along with a mandatory unique identifier for matching payments would reduce these errors, with a termly reconciliation providing assurance that the system is working correctly.

Recommendation

A termly reconciliation between the cash receipting system and the pupil spreadsheet should be carried out and any differences timeously investigated and corrected.

Service Response / Action

Agreed. Music Service administration staff will use Civica to show payments made and these will be matched against current data of those in receipt of lessons.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.7 Concessions

2.7.1 The new start form has a section where parents are asked to indicate whether they are in receipt of certain benefits, but not free school meals. These benefits, if supported, entitle the pupil to free tuition. 90% of pupils had registered prior to the current school year and had no supporting documentation. Currently there is no annual review of concessionary entitlement, or requirement to resubmit proof of entitlement.

2.7.2 The Service Income Collection procedure states *“Free School Meal reports should be requested from the MIS team on a frequent basis so that the service has the most up to date information available to use for checking entitlement for free lessons.”* Testing of those in receipt of a free school meal (FSM) concession, found four where entitlement had ended during the current school year, but free tuition was still being received. Since the SCN is not shown on the spreadsheet, there is not an easy way of confirming if FSM entitlement is still current, without doing a manual comparison of the free school meal entitlement report to the pupil spreadsheet, which, based on the number of current pupils, is time consuming. This further demonstrates the need to include the SCN in the pupil spreadsheet during the registration process.

2.7.3 As at 12 March 2019, the pupil spreadsheet indicates that:

- 146 pupils are in receipt of FSM
- 165 pupils receive SQA concession
- 6 pupils receive school clothing grants
- 188 pupils receive sibling concession

2.7.4 A sample of eighty-five pupils (50 free school meals, 20 senior pupils on an SQA Music course, and 15 siblings) recorded as being eligible for a concession, was selected to determine if concessions were being applied correctly. Free school meals and SQA eligibility was checked against SEEMIS, and siblings to the pupil list. The testing found six sibling concessions that were incorrectly applied, fifteen SQA errors, and four FSM eligibility errors, (29.4%).

2.7.5 Receipt of school clothing grants is not recorded on SEEMIS. In order to review the clothing grant concession, a list of those entitled was obtained from Revenues and Benefits who administer the grant. The extract was compared to the pupil spreadsheet,

using the pupil name and school as the matching criteria. All six pupils receiving a clothing grant concession were present on the list from Revenues and Benefits.

2.7.6 The review also found that a further 167 pupils in receipt of the grant were receiving music tuition. 103 of these were already in receipt of similar or higher relief, which left 64 which appeared to be receiving no concession, according to the pupil spreadsheet. A review of the 2018/19 pupil spreadsheet showed the following:

- 2 were paying 50%
- 3 records were blank
- 20 were paying full rate at some point during year
- 2 were recorded as “free” but no indicator why
- 7 recorded as “paused”
- 30 recorded as “unpaid”

2.7.7 Since pupils have not been identified as eligible to clothing grant, there have been instances where payment requests have been made and in some cases paid.

2.7.8 The Service has instigated a check process when applying concessions. The Admin Assistant, and Senior Admin Assistant or Music Co-ordinator validate a concession by typing their names into a “checked by” and “Second check by” columns. In some cases a copy of entitlement is retained in others none. If a reduced rate is going to be applied then it should be fully supported and evidenced.

Recommendation

The Service should review the eligibility to concessionary entitlement prior to each termly payment request being issued and ensure the eligibility is fully supported.

Service Response / Action

Agreed. The information relating to FSM will be extracted from SEEMIS. Details on clothing grants will be obtained from Revenues and Benefits who administer the grant. Non system-based documentation will be scanned and retained.

Implementation Date

August 2019.

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.8 Unpaid Fees

2.8.1 There is no set policy / procedure regarding the follow up of outstanding payments. The lack of a timescale for follow up emails, or details of when to pass overdue payments to corporate debt recovery, increases the risk of debts accruing and being pursued inconsistently.

2.8.2 The pupil spreadsheet does not record the process that has been applied to each parent, i.e. payment request date, payment reminder dates, date payment received. In some cases comments are recorded in cells but identifying the detail held in these comments is cumbersome. This could result in follow ups being missed or repeated. The spreadsheet should document relevant dates clearly to facilitate the payment follow-up process. Comments should be used to document responses or conversations.

Recommendation

A set follow up procedure, with the exact number of follow up requests, timescale between each and when debts should be passed to Corporate debt recovery should be documented and applied, with the follow up details recorded on the spreadsheet.

Service Response / Action

Agreed. Reminder emails will be manually sent by staff and a record kept of these. In the future the online system will generate these automatically.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

- 2.8.3 The payment requests state that “failure to pay fees could result in cessation of lessons.” However, this has never been applied.

Recommendation

The Function should confirm what the Policy is regarding non-payment of tuition fees and how this will affect provision of tuition, and thereafter apply it is practice.

Service Response / Action

Agreed. From the beginning of the next school year non-payment of tuition fees will result in no lessons being offered/started. The online system will have this feature built into it.

Implementation Date

August 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

- 2.8.4 The payment spreadsheet does not record a number of important items that would help manage debts, including the carry forward balances from the previous school year and the value of debts where invoices have been raised. This means that an accurate overall debt position is not available. The omission of this information could lead to required refunds / deferred payments being overlooked or an increase in bad debts.

Recommendation

The pupil spreadsheet should be updated to capture the outstanding debt balance for each pupil / parent.

Service Response / Action

Agreed. Music Service administration will chase up late payments along with maintaining a spreadsheet detailing the outstanding debt.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

- 2.8.5 Under Financial Regulations, The Chief Officer – Finance has authority to write off debts up to £25,000. This has not been delegated to any officers in ICFS. Therefore, any debt that requires to be written off, that has not previously been passed to the corporate debtors system should be notified to Finance, to obtain approval for the debt to be written off. It is not possible to determine if debts have been written off by the Service since a record of debts outstanding has not been maintained. The requirement to seek appropriate approval to write off debts should be included in the written procedures covering unpaid fees.

Recommendation

The Service should follow Financial Regulations regarding the write off of unpaid debts.

Service Response / Action

Agreed. Admin will continue to attempt to recover unpaid debt by directing parents/carers to use the previous online system. A record for how much is owed, when they have been contacted and the outcome will be kept on a spreadsheet. Where payments remain outstanding after agreed follow up procedure, the Music Service will contact Finance to arrange for write offs to be undertaken in line with Financial Regulations”

Implementation Date

August 2020

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.9 Attendance

- 2.9.1 Each Music Instructor is responsible for monitoring their pupils and their own attendance. This is done by updating an individual attendance spreadsheet per tutor, with separate worksheets for each school covered and is saved in a shared drive. The attendance spreadsheets can be accessed by IMS Admin Support staff, in order to determine whether payments received should be deferred until the next tuition period or refunded. Details recorded include the pupil's name, stage, lesson date, whether lesson was attended by the pupil, the lesson / instructor availability and reasons.
- 2.9.2 In the current school year, there is a possible maximum of forty lessons, depending on the days tuition takes place, and the subsequent public holidays or in-service days. Each pupil should receive a minimum of 32 lessons in any school year otherwise they are entitled to a deferral or refund. The current procedures state: *At the end of the year the central team should scrutinise Music Instructor registers to see if there are any pupils who have not received the correct number of lessons (32 for pupils who have had lessons for the entire year / 8 per term for part year pupils). Where the correct number of lessons has not been delivered, parents should be contacted on an individual basis to be offered a fee deferral (preferred option by service) or refund. If a pupil stops mid-way through a session and has not received the right number of lessons, there may also be a requirement for a refund. Refunds can also occur when something has gone wrong with a payment (eg a parent has been double charged). Refunds should not be made without prior consent from the Music Co-ordinator. This can be verbal consent (if working in the same location) or written consent. The reason for the refund must be recorded. Refund reports can be run by the Icon team but refunds should also be noted on the Refund Tab on the main spreadsheet.*
- 2.9.3 The procedure does not include how the calculation of the deferral / refund is calculated which could result in inconsistency.
- 2.9.4 Refunds back to a parent's credit / debit card made via the Council's webpay system do not require online approval to be actioned. While the Admin staff request approval as stated in 2.9.2 this is not followed up in manuscript / email by the line manager. The authority to action a refund should be supported in writing / email from the Music Co-ordinator with the reasons, to ensure any queries at a later date are evidenced, especially should staff change.

Recommendation

The procedures should detail how to authorise a refund and how a deferral is to be calculated.

Service Response / Action

This will not be necessary as a no refunds policy will be implemented for the start of the new school year. Terms and conditions will be updated to reflect this. Pupils will be guaranteed a minimum of 32 lessons which allows for any missed lessons to be rescheduled.

Internal Audit Position

Noted.

2.10 Inventory and Loan of Instruments

- 2.10.1 The Music Service maintains an instruments inventory record on an Excel spreadsheet. As at 1 March 2019 the inventory showed 1,135 instruments valued at £374,000 on loan to pupils and 639 held in stock valued at in excess of £271,000, plus a further 94 instruments awaiting repair with no replacement value recorded. The instruments in stock are held in three locked stores within Northfield Academy. Keys for these stores are held by both the Music Service and the school.
- 2.10.2 Along with the instrument stores, a separate room is located off the school library, which holds the sheet music catalogue. This is split into two sections, one belonging to the City Council and one, the David Gordon collection, which was inherited from Grampian Regional Council, and is held on behalf of Moray, Aberdeenshire and Aberdeen City Councils. The catalogue does not show a replacement value, although the office staff believe that replacement costs vary depending on their rarity.
- 2.10.3 Internal Audit tested the inventory records to the physical stock present (66 items) and found only a 31.8% accuracy. One store holding all cellos, violas and double bass are not included on the inventory equating to approximately £25,000 in value. The stores hold a number of empty instrument cases on which the inventory references number is held, meaning that the instrument is elsewhere and without an identifier. The lack of an accurate inventory could result in items being misappropriated and not identified.
- 2.10.4 Prior to the present Music Service Admin staff starting, there was no inventory. The Service has purchased a bar code reader with the intention of using this to manage the inventory going forward. However, there is currently no back-office system being purchased and therefore it will have to be used in conjunction with the current spreadsheet. In addition, not all instruments presently have a suitable label for scanning purposes.
- 2.10.5 Unlike other inventory or loan systems in operation within the Council, the current inventory spreadsheet and forms process being run by the Music Service does not provide the same audit trail, or management information. It also relies on instructors following the correct process for removing and returning instruments, whereby Admin staff are informed to update the spreadsheet. There is therefore a higher risk of misstating the inventory position unless movement of instruments is adequately controlled.

Recommendation

A full check of the inventory should be undertaken, by removing every item from the store and then checking each back in, ensuring that empty cases are shown as such; instruments without stock codes are identified and recoded; and items awaiting repair are included.

The Service should obtain replacement costs for all items on their inventories to ensure that insurance cover is adequate.

Service Response / Action

Agreed. A system to support the use of barcodes will be purchased and implemented. Locating items and updating the inventory will take a significant amount of time and staff resources.

Implementation Date

August 2021

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

2.10.6

Pupils may request the loan of an instrument on which they are receiving tuition. Until the beginning of the 2019/20 school year, this loan has been free of charge. As of August 2019, an annual hire of £85 per instrument will be charged. A parent must submit a loan form, which by signing, they accept the terms and conditions attached to the loan. As of August 2018, these forms were scanned and filed electronically, along with the manual form being filed. However, prior to August 2018, there are no copies of the loan forms held. This means that 970 of the 1,135 instruments recorded on the spreadsheet as on loan, have no signed loan form. This has implications should the instrument be damaged due to negligence, as repaying the cost of repair, is one of the conditions parents agree to when signing the form. With the introduction of the annual hire charge, this provides a good opportunity for the Service to have parents resign the loan agreement as part of the payment process.

Recommendation

The Service should require parents to resign the terms and conditions as part of the instrument hire payment process.

Service Response / Action

Agreed. The new online system requires parents/carers to click and agree the terms and conditions for instrument hire. They will be advised that they could be liable for payment up to £6,000 and advised to take out insurance per instrument hired.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Important within audited area

2.10.7

While the loan form confirms that an instrument is requested, there is no procedure in relation to receipt of instruments by staff and pupils. On the basis that some instruments are valued in excess of £6,000, a system for recording who has responsibility for that instrument is important. Without it a pupil could claim to have not received, or handed back an instrument, and the instructor will have no supporting document to show this to be incorrect.

Recommendation

The Service should introduce a process whereby the transfer of instruments between staff and pupils is fully documented.

Service Response / Action

Not agreed. Confirmation of return of the instrument will be sent to parent by Music Service administration when the instrument has been received from the Music tutor.

Implementation Date

December 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Significant within audited area

Internal Audit Position

Noted. However, this will not safeguard the staff should a pupil / parent state that an instrument has been returned when it has not.

- 2.10.8 With the introduction of the annual hire charge, it is essential that the recording of payments received, follow up of unpaid fees, and the Service's policy regarding instruments being held by pupils who have not paid, is fully documented and communicated to parents prior to the payment requests being issued. As recommended in Para 2.5.4 a specific timetable for the process and clear details of how concessions are applied and recorded, and a reconciliation to the cash receipting system should be fully in place prior to payments being requested.

Recommendation

The system in place for managing the new annual hire charges should address all the weaknesses of the current tuition fees payment system.

Service Response / Action

Agreed. As part of the revised online payment system, hire of instruments must be paid before lessons begin.

Implementation Date

October 2019

Responsible Officer

Acting Music Co-ordinator

Grading

Important within audited area

2.11 Youth Music Initiative

- 2.11.1 The Council receives Youth Music Initiative funding from Creative Scotland to ensure that every school pupil is offered a year of free music tuition by the time they leave primary school. To achieve the aims of the YMI, the Music Service provides class-based projects at each of the Council's primary schools. In 2018/19 the Council was awarded £191,499.

2.12 Staffing

- 2.12.1 The Music Coordinator manages the service, with the administration of Music Tuition registration and fees carried out by a Senior Support Assistant and Support Assistant (2 FTE). Provision of tuition, including YMI is achieved by 36 Instructors (33.4 FTE) of which five (3.6 FTE) are on fixed term contracts.
- 2.12.2 A review of a sample of contracts found they were all on the appropriate pay scale and that no enhancements had been paid in the current financial year.
- 2.12.3 Due to the funding for YMI being agreed for 2019/20, four of the fixed term staff will exceed four years continuous service in post. Under the Fixed Term Employees Regulations 2002

any temporary contract extended beyond four years will be made permanent, unless the authority can objectively justify not doing so. The Service has consulted with People and Organisation, who have stated that permanency will only be approved should a vacancy in that specific instrument be available at that time.

- 2.12.4 During the current financial year one tutor left under VSER and the Music Coordinator indicated that one other tutor had indicated their interest in also leaving. Internal Audit requested an extract of the vacancies recorded on the payroll system to review if they reconciled to the staffing budget. The Service records indicate a single vacancy within woodwind provision, while the payroll extract shows 10.07 FTE vacancies. Following the financial year end, Finance undertook a review of the establishment figures and notified People and Organisation of adjustments required to bring the payroll records in line with the 2019/20 budget.

2.13 Procurement

- 2.13.1 Testing of the spend on supplies and services for the Music Service found that purchase orders had been raised where required and that framework suppliers were being used where appropriate. Testing also found that the Council's Scheme of Governance had been followed appropriately.
- 2.13.2 Provision of buses to the Music Centre is arranged by the Public Transport Unit (PTU) as part of the annual home to school contracts and are charged to the home to school budget. These costs relate to the delivery of a non-statutory provision and as such do not fall under the normal free provision for home to school transport. Due to the current budgetary constraints Finance is reviewing the free nature of this service with a view to funding the transport through recharges to parents.

AUDITORS: D Hughes
A Johnston
G Flood

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	14 February 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC1912 – Data Security in a Cloud Based Environment
REPORT NUMBER	IA/AC1912
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Data Security in a Cloud Based Environment.

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 Data Security in a Cloud Based Environment.

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. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An 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. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1912 – Data Security in a Cloud Based Environment.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Digital and Technology

Data Security in a Cloud Based Environment

Issued to:

Andy McDonald, Director of Customer Services
Andrew Howe, Chief Officer – Digital and Technology
Norman Hogg, Security Architect
Caroline Anderson, Information and Data Manager
Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
External Audit

EXECUTIVE SUMMARY

The objective of this audit was to provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud. *The Council uses both the private cloud through their data centre service provider and the public cloud through externally hosted applications.*

Whilst a number of controls were in place in relation to: policies and procedures (with the exception of minor updates); data protection training; governance arrangements; procurement arrangements for systems subject to tender or procured from a government framework agreement; and back up and system patch management arrangements based at the Council data centre provider; recommendations have been made to improve the data security monitoring arrangements.

An ICT System Risk Assessment is required to be completed, to ensure adequate technical and physical measures are in place, to secure and protect information assets. New systems must be authorised by Digital and Technology (D&T) before use and in the case of systems with a value greater than £50,000, invitation to tender security question responses cover the requirements of an ICT System Risk Assessment, including disaster recovery; data backup arrangements; and data security audit arrangements. Where systems are not procured via government frameworks or a tender, whilst system approval by D&T is required, the ICT System Risk Assessment undertaken by D&T before system approval was not documented. As part of the on-going process to revise the Information Asset Register, D&T and Information Governance have agreed to include all Council systems, describing the nature of the data held, and the adequacy of technical and physical measures to secure that data.

Whilst due diligence is undertaken at the procurement stage for cloud based systems in relation to system backup and disaster recovery, it was noted that a disaster recovery plan was not available for one public cloud based system reviewed. In addition, arrangements for gaining on-going assurance over data back-up success and disaster recovery testing for public based cloud suppliers has not been formalised and with the exception of the Planning Consultation System, there was no evidence of these areas being monitored. This is particularly relevant for business critical systems moved into the public cloud. The Cluster concerned has agreed to obtain the relevant business continuity plan and D&T will seek assurances from system owners in relation to back-up and disaster recovery.

It is a requirement of GDPR to ensure a process is in place for regularly testing, assessing and evaluating the effectiveness of technical and organisational measures for ensuring the security of data being processed. D&T has arranged for an independent assessment of cyber security arrangements (IT health checks / penetration test) in relation to the Council's Customer Experience Platform. Penetration testing has not been arranged for other cloud-based suppliers holding Council personal data, however the intention is to schedule testing for Office 365 and the new Human Capital Management system. Certain public cloud based suppliers, such as Microsoft, publish regular security audits, however D&T do not presently monitor these reports. Internal Audit recommended that IT health check reports and security audits should be arranged / monitored by D&T as the Cluster is best qualified to interpret the results. However, D&T believe any ongoing assurance for data security should be managed by the relevant Cluster as part of account meetings with system providers and through contract management.

Only two business critical systems maintained by the data centre provider had been subject to disaster recovery testing in 2018. The Cluster advised that system

upgrades and server changes are being carried out before the remaining systems can be subject to disaster recovery testing and have agreed to schedule testing once these upgrades and server changes are complete.

In order to assess the risk of transferring data to the cloud, data protection impact assessments (DPIAs) should be completed for Information Assets that contain personal data before doing so. The DPIA for one cloud-based system did not identify where personal data is stored as required. Four other cloud-based systems did not have DPIAs in place. The Clusters concerned have agreed to update / complete DPIAs as required. In addition, the public cloud-based Housing Advice and Support System was replaced in March 2019 however confirmation has not been obtained from the previous provider that all Council data has been destroyed. The Service has agreed to obtain this.

Contractual arrangements with a sample of public cloud-based hosted systems and the Council's data centre provider were reviewed, to ensure that the contracts in place and the invitation to tender responses and assessments where required, enabled compliance with the GDPR data security requirements, the processing and storage of personal data was specified, and that the systems were approved for use by D&T. This was found to be the case with the exception of the Early Years Admission and Enrolment system, where a copy of the contract was unavailable. The Cluster has agreed to obtain a contract detailing how the Council's data is processed and stored.

1. INTRODUCTION

1.1 The objective of this audit was to provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud.

1.2 In April 2014 the Scottish Government published the Data Hosting and Data Centre Strategy for the Scottish Public Sector. The strategy's vision was for Scotland's public sector data hosting to be cost-effective, carbon neutral and make appropriate use of cloud technology. The Scottish Government's March 2015 Scottish Public Sector Cloud Guidance includes the following potential benefits: access to shared computing resources from any location; freedom from capital expenditure on back-end computing equipment and software; the ability to source computing services quickly and cheaper than traditional models; and the ability to pay for such services on some form of metered or per-use basis. The Guidance goes on to state that organisations must consider how they can adopt cloud computing to deliver the efficiency and flexibility it can offer.

1.3 The term "cloud technology" indicates services are being delivered over the internet rather than from an organisation's own on-site data centre. The Scottish Government adopts the "cloud computing" definition provided by the National Institute of Standards and Technology (NIST) as "a model for enabling ubiquitous, convenient, on-demand network access, to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction."

1.4 The Scottish Public Sector Cloud Guidance details security considerations when using the cloud, including confidentiality (organisations specifying where data is stored to avoid loss / corruption of data); integrity (data sufficiently portable to avoid vendor "lock-in"); availability (reliable access to data e.g. good internet connectivity); and having appropriate contractual arrangements.

1.5 There are four deployment models for the Cloud:

- Public – where resources are available to any customer;
- Private – where resources are exclusively used and controlled by one customer;
- Community – where resources are shared between a group of similar customers with shared objectives; and
- Hybrid – a composite of two or more of the other cloud models.

The Council uses both the private cloud through their data centre service provider and the public cloud through externally hosted applications.

1.6 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Andrew Howe, Chief Officer – Digital and Technology, Norman Hogg, Security Architect, Steven Robertson, Infrastructure Architect, and Caroline Anderson, Information and Data Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Policies and Procedures

- 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 that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.
- 2.1.2 The ICT Acceptable Use Policy defines employee responsibilities when using Council ICT equipment, networks and systems. The policy is comprehensive and includes appropriate user behaviour (use of passwords, use of email, locking ICT equipment etc), monitoring arrangements in place to ensure compliance with the policy, and reporting requirements in relation to breaches and incidents. In addition, the policy requires employees to only make use of ICT equipment, systems and networks that have been authorised for use by Digital & Technology (D&T). This is considered further in section 2.4.
- 2.1.3 Other policies are in place relating to data security, including: the Corporate Information Policy, which details governance arrangements in relation to the Council's information and data; the Corporate Protective Monitoring Policy, which details the means of collecting, analysing and reporting on threats to the Council's data; and the ICT Access Control Policy, which details the expected controls and employee behaviour, to avoid unauthorised access to Council data. These policies and the ICT Acceptable Use Policy are comprehensive.
- 2.1.4 It was noted that the ICT Acceptable Use Policy and the Protective Monitoring Policy had not been reviewed as scheduled and there were some minor amendments required to the policies in relation to references to: historic data protection legislation (in addition to correctly referring to GDPR); historic risk registers; and the Finance, Policy and Resources Committee as the Committee with approval authority for the ICT Acceptable Use Policy. A recommendation is included for tracking purposes.

Recommendation

The ICT Acceptable Use Policy and Protective Monitoring Policy, should be reviewed, updated and approved as appropriate.

Service Response / Action

The minor changes to these documents are in plan with an aim to review at the next Information Governance Group meeting.

Implementation Date

Implemented

Responsible Officer

Security Architect

Grading

Important within audited area

- 2.1.5 A number of procedures are also in place to help ensure Council data remains secure, including: the Managing Information Handbook; the Information Security Incident Reporting procedure; and the Information Asset Owner Handbook. These procedures make Council employee responsibilities clear in relation to data security, including where data is shared with cloud-based systems.

2.2 Training

- 2.2.1 The mandatory Information Governance training, which covers data protection requirements under the General Data Protection Regulation, is required to be completed

by all employees. Completion statistics are reported quarterly to the Information Governance Group and monthly to Corporate Management Team (CMT), as part of risk Corp-005 Information Governance, included in the Corporate Risk Register. Training completion of 44% was reported in the Information Governance Management Annual Report to the Audit, Risk and Scrutiny Committee on 25 September 2018. More recently, training completion was 88%, as reported to CMT on 28 March 2019.

2.2.2 Information Governance advised that exception reports are sent to Chief Officers on a monthly basis, with details of employees yet to complete the Information Governance training, to help ensure that training is completed as required. A sample of Chief Officers was selected and all had received these reports as expected in January 2019.

2.3 Risk

2.3.1 The Corporate Risk Register is reported to CMT on a monthly basis. This includes risk Corp-006 relating to Cyber Security, defined as “Cyber Security threats must be mitigated to protect the Council, its essential functions and customer data”. A potential cause highlighted is a lack of appreciation of the threats of extension into the Cloud. The potential impact includes service disruption, unlawful disclosure of sensitive information, individuals placed at risk of harm, prosecution, reputational damage, and financial penalties. The Service has assessed risk Corp-006 Cyber Security as very serious with a low likelihood based on the controls in place, which are detailed in the Corporate Risk Register, along with an assessment of how effective the controls are.

2.3.2 The Customer risk register by Cluster (Cluster Risk Register), last reported to the Operational Delivery Committee on 6 November 2018, also includes the risk of service disruption potentially caused by moving to external cloud-based services. It has since been updated and the version as at 11 April 2019 states “as Services move out to the Cloud, the risks to data increase, as the security boundary is expanded and we have reduced visibility into what happens.” Required controls are stated to include a sound Identity Access Management System (IDAM) combined with role-based access and identification, and investigation of anomalous behaviour.

2.3.3 The Cluster Risk Register’s control actions state that Identity Management is controlled by a number of systems and that anomalous behaviour techniques are in operation, through the use of the IDAM solution, Office 365, and changes to the Council’s private data centre provision, as these are rolled out. Examples of anomalous behaviour analytics include: requiring a user to provide further evidence of their identity, should they change the device they use to log in; or preventing access if a user logs in more than once, from geographically distant areas, in quick succession.

2.3.4 The IDAM solution will link into Office 365, the Active Directory used to identify users when logging into their devices, and the Human Capital Management System. It will be used to manage account creation, changes and deletions, via the Human Capital Management system. When the Human Capital Management system is updated with a starter, leaver or mover, the IDAM solution will identify this and automatically create, remove or amend the user’s network account, email account, and rights and privileges as appropriate. The IDAM solution will determine access to corporate drives, Office 365 and any other platform that uses the Active Directory for access based on the user’s role.

2.3.5 The Cluster Risk Register reported that progress with implementing the IDAM solution and behavioural analytics was 20% complete with a target completion date of 31 July 2019. The Service has advised that this is now 40% complete as a result of some Office 365 monitoring, alerting and behavioural analysis being implemented and the IDAM solution now being in the testing phase. The target completion date is still 31 July 2019, although the solution will then have to be developed over time to increase and confirm security.

- 2.3.6 According to the Corporate Information Policy, the Senior Information Risk Owner (SIRO) is accountable to the Chief Executive for the management of the information risks across the Council. To achieve this the SIRO must ensure that the Council's Information Asset Owners are carrying out their roles effectively and consistently implementing information risk processes. Information Asset Owners are required to provide assurance to the SIRO on the use, management and governance of their information assets, to enable the SIRO to report to the Chief Executive. A checklist is available in the Information Asset Owner Handbook which details expected actions by the Information Asset Owner in order to provide this assurance, including:
- the Information Asset Register is up to date;
 - Privacy Impact Assessments have been completed where required in relation to data protection;
 - contractual arrangements are in place with third parties involved in processing, hosting or supporting the Information Asset;
 - it is known who has access to information and why;
 - appropriate disaster recovery and business continuity arrangements are in place;
 - the Information Asset Owner is satisfied with the technical and physical measures in place to secure and protect the Information Asset; and
 - risks in relation to Information Assets are actively managed with risk registers updated as appropriate.
- 2.3.7 Information Governance has advised that confirmation of technical and physical measures being in place, to secure and protect an Information Asset, is no longer going to be an Information Asset Owner's responsibility, as part of the Information Asset Assurance statement, as Digital and Technology must assess the system before this can be determined.
- 2.3.8 The Corporate Information Policy defines Information Asset Owners as senior business managers responsible and accountable for the specific, defined information assets within their remit, in accordance with the Council's Information Asset Owner Handbook (the Handbook). The Handbook defines an Information Asset as an identifiable collection of data stored in any manner, at any location (i.e. including private and public cloud), which is recognised as having value to the Council for the purposes of performing its business functions and activities. All collections of information containing personal information must be managed as Information Assets.
- 2.3.9 Information Asset Owners are required by the Handbook to register and keep up to date entries relating to their information assets in the Council's Information Asset Register. In a sample of three public cloud-based systems (Microsoft Office 365, the Customer Experience Platform, and the Planning Consultation System) used to store Council data, two were present on the register, whilst the Microsoft Office 365 OneDrive was not, despite approximately 2,300 employees having access to it.
- 2.3.10 Microsoft OneDrive is the new employee personal drive which has been rolled out and replaced the B drive on 15 March 2019. The information stored on Office 365, including the OneDrive, the value of the information stored to the Council, the legal basis for it being stored, and the location of the data being saved are not recorded on the Information Asset Register as required. The guidance regarding the transfer of data from the B Drive to OneDrive states that personal drives have historically been used to store personal work-related documents, including personal review and development documents and contracts of employment. This is in line with the Managing Information Handbook which states personal drives should be used for work-related personal information (not Council information) which cannot be stored on the shared drive for confidentiality reasons. The

guidance only recommends documents which are not work related be removed meaning personal data will be recorded on OneDrive.

- 2.3.11 Whilst it was noted that Office 365 was absent from the Information Asset Register despite holding personal data, it was also noted the performance information system, recorded on the register as containing personal sensitive data in relation to pupil case files, did not contain this data.
- 2.3.12 Management has stated that the Information Asset Register is currently under review. Information Governance and D&T are collaborating to develop a database which is more focused on the flow of data. This will include all relevant details for each Information Asset, including the means by which data is captured; the relevant privacy notice to notify the public of data being captured; the system used to store and process the data; adequacy of technical and physical measures to secure Information Assets; and the reasons, means and legal basis for processing.
- 2.3.13 Information Governance has contacted Information Asset Owners of Information Assets deemed to be high risk by Information Governance, in relation to the flow of data, to confirm the following are in place: local procedures; retention and disposal arrangements; Information Sharing protocols (where applicable); a privacy notice; and any relevant contracts are included on the contracts register. The intention is to collaborate with D&T to capture relevant details in relation to systems holding Information Assets.
- 2.3.14 The Handbook recommends that an ICT System Risk Assessment be used by Information Asset Owners to ensure they are satisfied that the technical and physical measures in place to secure and protect their information assets are adequate. The Information Asset Register will capture the outcome of these assessments prior to systems being authorised for use by D&T, as required by the ICT Acceptable Use Policy. A recommendation is included for tracking purposes.

<u>Recommendation</u>		
Information Governance should liaise with D&T to establish a revised Information Asset Register that reflects all Council systems, describing the nature of the data held in Council systems and the adequacy of technical and physical measures to secure that data.		
<u>Service Response / Action</u>		
Agreed. The Service will look to document achievement of “baseline” technical and physical measures in accordance with the Scottish Government Cyber Resilience Framework to be released later this year.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
December 2019	Information and Data Manager Security Architect	Significant within audited area

- 2.3.15 The Handbook requires a privacy impact assessment to be completed where information assets contain personal data and there is to be a change in the way the information is collected, stored, used, managed or processed, such as transferring Council personal data to a third party. Privacy impact assessments / Data Protection Impact Assessments were requested for a sample of cloud-based systems (Microsoft Office 365; Customer Experience Platform, Human Capital Management System, Planning Consultation System, Housing Advice and Support System, Music Tuition Database, and the Early Years Admission and Enrolment System). Three assessments were available for review, with two having been completed as required, one assessment was partially completed, and four assessments were unavailable for review.

- 2.3.16 The Data Protection Impact Assessment for Microsoft Office 365 did not identify where personal data is stored and protected as required. The Mini-Competition Invitation for the Council's Microsoft Enterprise Agreement, under which Office 365 was procured, states that the Council note that any software delivered under the contract will be covered by the standard Microsoft Terms and Conditions. The Microsoft Online Services Terms states that Office 365 customer data is located in the UK at rest, however the data may be transferred to the United States or any other country in which Microsoft or its Sub Processors operate, to provide the Online services. Whilst Microsoft states that safeguards are in place in compliance with GDPR, the fact that data is transferred in this way has not been assessed in the Data Protection Impact Assessment, to determine if it is suitable for the Council.
- 2.3.17 Google Apps for Education is a public cloud-based service, which is used by the Council to store personal information relating to Aberdeen City pupils and staff. One of its uses is to store the Council's Music Tuition Pupil Spreadsheet, which contains: pupil names; schools; year; home address; and parent email addresses. Google may store and process Customer Data in the United States and any country in which Google or any of its Sub Processors maintains facilities, as confirmed by Governance in an initial privacy impact need assessment. The assessment concluded Google's terms and conditions were acceptable from a legal perspective. The initial assessment was also completed by the Cluster who concluded a privacy impact assessment was not required. The Cluster now intend to review the risks by completing a full data protection impact assessment.
- 2.3.18 The Housing Advice and Support System was replaced in March 2019 from a public cloud-based system to a secure file sharing system, used to share data using the Council's private cloud data centre. Homeless client names and details of the hours of support provided, are uploaded to the Council's data centre, by external providers of that support, using the secure file sharing software, in order for the Council to access that data. A Privacy Impact Assessment was not completed prior to transferring the data from the previous system. It was also noted that confirmation is yet to be obtained from the previous hosted system provider that all Council data has been destroyed.
- 2.3.19 A data protection impact assessment has not been completed for the Early Years Admission and Enrolment System since the use of the system pre-dates the requirement for a DPIA. Invitation to tender documentation was unavailable therefore it was not possible to determine if data security arrangements had been adequately considered as part of the procurement process.
- 2.3.20 A data protection impact assessment was unavailable in relation to the Planning Consultation system. It is therefore not possible to determine if data protection has been adequately considered in relation to the use of the system.

Recommendation

- a) Data Protection Impact Assessments should be completed where personal data is to be managed differently.
- b) Confirmation should be obtained from former cloud-based system providers that Council data has been destroyed once transferred.
- c) Integrated Children's and Family Services should arrange for a DPIA and ICT System Risk Assessment to be completed for the Early Years Admission and Enrolment System.

Service Response / Action

Agreed

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
July 2019	a) Data Centre Transition Manager / Quality Improvement Officer / Development Team Leader / Chief Officer Strategic Place Planning b) Development Officer Contracts c) Early Years Manager	Significant within audited area

2.3.21 As described at paragraph 2.3.10 Council data has been transferred to Microsoft as part of the rollout of OneDrive, which is to replace the personal “B” drives. A pilot is also underway within Digital and Technology to rollout Microsoft Office 365 Sharepoint as a replacement for the existing shared “O” drive. D&T expect this pilot to be completed by 31 May 2019, after which Sharepoint will be rolled out to all Clusters. Data Stewards at a Service Area level have been asked to review the folders within their remit, and classify them as to be moved into Sharepoint, deleted or archived. The Service Area that the folders relate to must also be identified as well as the Business classification and retention period. In all cases the retention period has a link to the Information and Communication Technology page of the Council’s Retention and Disposal Schedule.

2.3.22 Microsoft Office 365 has the functionality to classify files according to confidentiality, using sensitivity labels, resulting in restriction of access to data to specified users as required, and for retention periods to be defined after which files are automatically deleted, using retention labels. Files are not being classified using this functionality of Office 365, as part of the rollout of Sharepoint and OneDrive, due to the scale of the work required to complete the initial rollout. The Cluster will give consideration to classifying files in this way following the rollout of Sharepoint and OneDrive.

2.4 Procurement

2.4.1 Article 32 of GDPR requires the data controller and processor to implement appropriate technical and organisational measures to ensure a level of security appropriate to the risk, including:

- pseudonymisation and encryption of personal data;
- the ability to ensure the ongoing confidentiality, integrity, availability and resilience of processing systems and services (considered further in section 2.7);
- the ability to restore the availability and access to personal data in a timely manner in the event of a physical or technical incident (considered further in section 2.5); and
- a process for regularly testing, assessing and evaluating the effectiveness of technical and organisational measures for ensuring the security of the processing (considered further in section 2.6).

2.4.2 GDPR Article 28(3) and section 59(5) of the DPA 2018 require that where a data controller such as the Council uses a third party to process personal data, the processing should be governed by a contract, binding the processor to the controller and setting out the subject

matter and duration of processing, the nature and purposes of the processing, the type of personal data and categories of data subjects, and the obligations and rights of the controller.

2.4.3 As stated in paragraph 2.1.2, the ICT Acceptable Use Policy requires employees to only make use of ICT equipment, systems and networks that have been authorised for use by Digital & Technology (D&T).

2.4.4 Contractual arrangements with a sample of public cloud-based hosted systems and the Council's data centre provider were reviewed, to ensure that the contracts in place and the invitation to tender responses and assessments where required, enabled compliance with the GDPR data security requirements detailed in paragraph 2.4.1, the processing and storage of personal data was specified, and that the systems were approved for use by D&T. This was found to be the case with the exception of the Early Years Admission and Enrolment system, where a copy of the contract, detailing how Council data was being processed and stored, was unavailable.

<u>Recommendation</u>		
A copy of the contract between the Early Years Admission and Enrolment system and the Council, detailing how Council data is processed and stored, should be obtained.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
July 2019	Early Years Manager	Significant within audited area

2.4.5 The suppliers were also reviewed to ensure they had internationally recognised certification, in relation to managing data security risks. All cloud-based providers reviewed had advised they had at least current ISO27001:2013 certification, indicating they had an adequate information security management system.

2.5 Back Up and Disaster Recovery

2.5.1 Article 32 of GDPR requires the data controller and processor to implement appropriate technical and organisational measures to restore the availability and access to personal data in a timely manner in the event of a physical or technical incident.

2.5.2 Private cloud business critical systems are backed up in full on a weekly basis and incrementally on a daily basis by the Council's Data Centre provider, with 30 days of back up files held locally in Aberdeen and a 90-day offsite retention held in the disaster recovery datacentre in Dundee.

2.5.3 ICT receives daily emails detailing the status of the back-ups for the systems managed by the Council's data centre provider and any exceptions in relation to failed back up attempts.

2.5.4 A schedule of systems to be tested for Disaster Recovery, in the 4-year period to 2020, has been set up, with testing dates included where known. It was noted that a number of systems had not been scheduled for testing in 2018 and 2019. The Cluster advised testing is never scheduled beyond the following year as testing dates are usually subject to change. The case management system for Social Work and the Child Protection Register had been subject to disaster recovery testing in 2018. The Cluster advised that system upgrades and server changes are being carried out before the remaining systems can be subject to disaster recovery testing.

- 2.5.5 D&T seek to gain assurance over technical and physical measures in place to protect information assets, for procurements of greater than £50,000, via Invitation to Tender (ITT) data security question responses and supporting documentation provided by those suppliers. The ITT data security questions include a requirement for disaster recovery to be built into the system and for the system to have off-site backups consisting of transaction logs, incremental backups and full backups. Where the Crown Commercial Service G-Cloud framework agreement has been used to procure public cloud based services, it is a requirement of that framework that the supplier have a clear disaster recovery plan in place. In addition, employees are required to seek authorisation from D&T before making use of new ICT systems and networks.
- 2.5.6 Whilst due diligence is undertaken at the procurement stage for these systems, arrangements for gaining on-going assurance after the procurement stage, over data back-up success and disaster recovery testing for public based cloud suppliers, has not been formalised and with the exception of the Planning Consultation System, where backup success was reported as part of the monthly Managed Services Service Review report to the Cluster, there was no evidence of disaster recovery testing and back-up success being monitored for public cloud based systems. This is particularly relevant for business critical systems moved into the public cloud. Reports of backup restore points were unavailable for the Customer Experience Platform, Music Tuition system, and Early Years Admission and Enrolment System.
- 2.5.7 Supplier business continuity plans were in place, for the Human Capital Management system, Office 365, the Music Tuition system, the Planning Consultation System and the Customer Experience Platform. However, a plan was unavailable for the Early Years Admission and Enrolment System.

Recommendation

- a) Disaster recovery testing should be scheduled with the Council's data centre provider for business-critical systems.
- b) Success of back-ups and disaster recovery testing should be monitored where data is held with public cloud-based system providers.
- c) A supplier business continuity plans should be obtained for the Early Years Admission and Enrolment System.

Service Response / Action

- a) Agreed. The Child Protection Register and Carefirst have been provisionally booked for testing in November 2019.
- b) System owners will be asked to contact their vendors to gain ongoing assurance over backup success and disaster recovery testing for public cloud based systems.
- c) Agreed.

Implementation Date

a) November 2019

b) Implemented

c) July 2019

Responsible Officer

a) Incident and Problem Co-ordinator

b) Incident and Problem Co-ordinator

c) Early Years Manager

Grading

Significant within audited area

2.6 Data Security Monitoring

- 2.6.1 As stated in paragraph 2.4.1, it is a requirement of GDPR to ensure a process is in place for regularly testing, assessing and evaluating the effectiveness of technical and organisational measures for ensuring the security of data being processed.
- 2.6.2 IT Health Checks provide an independent assessment of an organisation's cyber security arrangements. ITHC reports can provide assurance that cloud-based service provider systems are protected from unauthorised access or change. D&T arranged for the Council's IT Health Check provider to carry out a penetration test of the hosted Customer Experience Platform. The Information Asset Owner for the system has indicated consideration is being given to commencing regular penetration testing of the platform and that this is being put out to tender as part of a wider IT Health Check and Cyber Essentials Plus service.
- 2.6.3 Penetration testing is yet to be scheduled for the new Human Capital Management System, which has been procured, but is yet to go live. The supplier has advised that historic penetration testing is not available and that the Council, like its other customers, would have to make arrangements for penetration testing to be carried out by a third party of its choice. This is due to the fact that each customer has a bespoke data security environment depending on account security settings.
- 2.6.4 D&T confirmed that IT health checks, or penetration testing, has not been monitored for other cloud-based suppliers holding Council personal data. Audits of the data processing undertaken on Council data by the cloud provider of the Music Tuition system are allowed under the standard contractual terms, however such an audit has not taken place. D&T intends to schedule penetration testing for Office 365 and the Council's Human Capital Management system.

Recommendation

D&T should arrange and monitor IT health check reports / security audits for third party suppliers managing Council personal data in the cloud as required.

Service Response / Action

D&T arrange Council initiated external checks on systems as deemed appropriate by the service. Suppliers themselves are responsible for their own checks and where necessary are stated as requirements when going out for procurement. D&T believe any ongoing assurance around this should be sought by the services as part of their regular or annual account meetings and contract management. D&T have no direct relationship with the providers.

Internal Audit Position

As per 2.3.7 Information Asset Owners are no longer considered to be responsible for confirming the adequacy of technical and physical measures to secure and protect Information Assets, D&T are best qualified to determine if systems have adequate data security measures in place during the life of contracts with public cloud-based suppliers. This is particularly relevant for business critical systems moved into the public cloud.

Implementation Date

N/A

Responsible Officer

N/A

Grading

Significant within audited area

- 2.6.5 Every system maintained at the Council's data centre provider has patches applied once every four weeks on a rolling 4-week cycle. Patches are required to resolve system security vulnerabilities. The success of patches is checked weekly. This was primarily a manual process and untracked. The Security Architect has since developed a report

which identifies whether patches, for all relevant systems, have been successfully applied and has advised that this will be reported to ICT Management on a monthly basis.

- 2.6.6 The IT Security Architect and Infrastructure Architect are members of the Local Authorities Information Security Group, the Cyber Security Information Sharing Partnership, and subscribe to a number of live feeds, providing updates every 15 minutes, that will detail any new cyber threats requiring action. Should data security incidents be reported, that affect the cloud providers used by the Council, the Security Team can take appropriate action.

2.7 System Performance

- 2.7.1 As stated in paragraph 2.4.1, it is a requirement of GDPR for the Council to ensure arrangements are in place for the ongoing confidentiality, integrity, availability and resilience of processing systems and services.
- 2.7.2 The performance availability of Council servers and networks used at the data centre service provider is monitored using a network infrastructure monitoring tool, which reports any servers which are “unreachable devices”. Should any servers be identified as an unreachable device, then a call is logged in Service Now in order for the matter to be resolved. A report run on 1 April 2019 showed there were no exceptions. The Service has advised other tools are in place to help maintain the confidentiality, availability and integrity of Council data.
- 2.7.3 The Cluster also receives monthly Service Reports and Additional Service Report Information, from the data centre service provider, which detail: individual servers failing the Service Level Agreement availability of 99.9%; change requests; “red” server capacity alerts (meaning servers are reaching their capacity limits); managed server restores; number of requests by Council staff to access the data centre; project updates e.g. disaster recovery testing; the operational risk register (used to monitor any ongoing risks), and storage use and costs. The January, February and March 2019 reports all showed overall server availability met the 99.9% SLA target.
- 2.7.4 The Council is part of the Scottish Wide Area Network (SWAN), a network designed to be secure to facilitate data sharing and collaboration within the public sector. The SWAN portal enables D&T to monitor the availability of connections to Aberdeen City Council remote sites, with each site listed and the connection status reported on the portal as green, amber or red, depending on performance. This enables D&T to monitor the availability of network connections. If a site is reported as amber or red then a Desktop Analyst attends the site to determine the nature of the fault, with a call raised with SWAN to resolve the matter, if it cannot be resolved locally. A SWAN report as at 8 April 2019 showed all Council live sites were green, indicating connection status was adequate.
- 2.7.5 SWAN will also proactively identify network outages and escalate these to the Council, including during out of hours.
- 2.7.6 Should any of the Council’s business critical system servers cease to operate at the data centre provider or any of the servers used by the Council reach their predefined storage use warning thresholds, a critical 1 call is automatically raised by the data centre provider on Service Now. In order for appropriate corrective action to be taken by D&T. Service Now tickets had been raised for 153 such instances since April 2018. D&T advised these had been resolved as indicated by the priority being graded at 2 (high) or 3 (moderate) as at 1 April 2019 (as opposed to 1 critical). For a sample of calls reviewed appropriate action had been taken.

- 2.7.7 A sample of cloud-based suppliers, used to manage Council data, were reviewed to ensure the Council had access to a service call function for logging performance issues and that the supplier was reporting on contractual system key performance indicators.
- 2.7.8 The Customer Experience Platform specifies the minimum system availability and the target response times for addressing system faults based on the level of disruption to system functionality. System performance issues, including those relating to system availability, can be logged and progress resolving these calls can be monitored, using the customer support portal provided by the supplier.
- 2.7.9 Comprehensive performance reporting was being provided for the Planning Consultation System in accordance with the SLA.
- 2.7.10 It was not possible to determine if the supplier was reporting on KPIs for the Early Years Admission and Enrolment System, since the contract was unavailable (recommendation included at 2.4.5).

<u>Recommendation</u>		
Assurance should be gained over contractually agreed performance for the Early Years Admission and Enrolment System.		
<u>Service Response / Action</u>		
Early Years Admission and Enrolment System – Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
July 2019	Early Years Manager	Important within audited area

2.8 Governance

- 2.8.1 The purpose of the Information Governance Group is to support and drive the broader information governance agenda, provide the Corporate Management Team (CMT) with assurance that effective control mechanisms are in place, and manage and mitigate the Council’s information risks. The Group provides a quarterly report to CMT on Information Governance Management and an annual report to the Audit, Risk and Scrutiny Committee, as referred to in paragraph 2.2.2. These reports include a section on cyber security risks, covering the number of incidents and attempts threatening the Council’s information, software, infrastructure or computer network, that originate from inside and outside the organisation.
- 2.8.2 The 2018/19 quarter 3 performance report was reported to CMT on 28 February 2019 and the annual report for July 2017 to June 2018 was discussed and noted by the Audit, Risk and Scrutiny Committee on 25 September 2018.
- 2.8.3 The Security Team prepares a monthly ICT security report for D&T senior management. This includes various statistics including: web risks prevented; email traffic; IT risk register status; and, an update on the operational risks of high importance. Both the January and February 2019 reports had been issued to D&T management by the Security Team as expected.

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.

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	14 February 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC1908 – Non-Residential Charging Policy
REPORT NUMBER	IA/AC1908
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Non-Residential Care Charging Policy.

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 the Non-Residential Charging Policy.

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. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An 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. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1908 – Non-Residential Care Charging Policy.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Health & Social Care Partnership

Non-Residential Care Charging Policy

Issued to:

Sandra Ross, Chief Officer, Aberdeen City Health & Social Care Partnership (ACHSCP)

Alex Stephen, Chief Finance Officer, ACHSCP

Martin Allan, Business Manager, ACHSCP

Jonathan Belford, Chief Officer – Finance

Claire Duncan, Lead Social Work Officer

Alison MacLeod, Lead Strategy & Performance Manager

Paul Hewitt, Finance Support Officer

Trevor Gillespie, Performance Manager

Sarah Macaskill, Service Income Team Leader

External Audit

EXECUTIVE SUMMARY

Although there is no 'duty' placed upon councils to charge for community care services, they are currently empowered by statute to make decisions about whether or not to charge for community care services, and, if they choose to, to develop and administer local charging policies. Financial and demographic pressures across the public sector increase the need to focus on potential revenue streams. Guidance and principles have been set out by CoSLA, and are updated annually, to assist in developing local policies.

Aberdeen City Council's Social Work non-residential charging policy was last updated in 2011 and is based on the principle that the level of services provided should be based on the service user's need, not their ability to pay and that a free service should continue to be provided to people on low incomes.

Aberdeen City Health and Social Care Partnership has ultimate responsibility for the delivery of the Charging Policy. Assistance in the delivery of the policy is provided by the Carefirst Team, the Financial Assessment Team, and the Business Services Transaction Team, within the Council.

In 2018/19, non-residential charging income of £7.5m was achieved against a budget of £8.3m.

The objective of this audit was to provide assurance that there is a clear charging policy and that it is being complied with.

In 2015 the Education and Children's Services Committee agreed that the basis for charging should be adjusted, from the previous policy agreed in 2011 based on set rates for different services, so that individuals would contribute proportionally towards the cost of their care in the same way, regardless of how those services were provided, subject to a financial assessment of their ability to pay, and a limited number of exceptions. As previously reported (Internal Audit report AC1617 Self-Directed Support (October 2016)) this was not implemented as planned. This, and delays in identifying and invoicing for chargeable services may (depending on the outcome of financial assessments) have resulted in material sums of income being foregone.

Some delays in concluding financial assessments were also identified, and there is limited evidence in support of cases where charges have been waived. The Service has agreed to review the evidentiary requirements, monitoring and escalation process.

Approval for a new policy is being sought from the City Growth and Resources Committee in June 2019, and the Service has agreed to progress with further development and implementation of new systems and process changes to ensure charges under the new policy are raised correctly and timeously.

1. INTRODUCTION

- 1.1 Although there is no 'duty' placed upon councils to charge for community care services, they are currently empowered by statute to make decisions about whether or not to charge for community care services, and, if they choose to, to develop and administer local charging policies. Financial and demographic pressures across the public sector increase the need to focus on potential revenue streams. Guidance and principles have been set out by CoSLA, and are updated annually, to assist in developing local policies.
- 1.2 Aberdeen City Council's Social Work non-residential charging policy was last updated in 2011 and is based on the principle that the level of services provided should be based on the service user's need, not their ability to pay and that a free service should continue to be provided to people on low incomes.
- 1.3 In 2018/19, non-residential charging income of £7.5m was achieved against a budget of £8.3m. In 2017/18 the actual income received was £8.9m against a budget of £8.8m.
- 1.4 The objective of this audit was to provide assurance that there is a clear charging policy and that it is being complied with.
- 1.5 The "Service" referred to in the report is Aberdeen City Health and Social Care Partnership. Whilst other areas assist, the Partnership has ultimate responsibility for the delivery of the Charging Policy. Assistance in the delivery of the policy is provided by the Carefirst Team (for process and system maintenance and development), the Financial Assessment Team within Accounting (for procedures and processes relating to assessing and enacting charges), and the Business Services Transaction Team (for raising invoices and arrears management).
- 1.6 The factual accuracy of this report and action to be taken regarding the recommendations made, have been agreed with Alex Stephen, Chief Finance Officer – AHSCP, Jonathan Belford, Chief Officer – Finance, Claire Duncan, Lead Social Worker, Alison MacLeod, Lead Strategy & Performance Manager, Paul Hewitt, Finance Support Officer, Trevor Gillespie, Performance Manager, and Sarah Macaskill, Service Income Team Leader.

2. FINDINGS AND RECOMMENDATIONS

2.1 Charging Policy

- 2.1.1 The 2011 charging policy was based on levying set charges for specific services. Since the roll out of Self-Directed Support was commenced in 2014, increasing numbers of service users have been offered and taken up alternative options for the management of their care, including personal budgets. Therefore, in June 2015 the Education and Children's Services Committee agreed that the basis for charging should be adjusted so that individuals would contribute towards the cost of their care in the same way, regardless of how those services were provided, subject to a financial assessment of their ability to pay, and a limited number of exceptions.
- 2.1.2 The 2015 policy was based on COSLA guidance, which includes different allowances applied to individuals and couples within financial assessments of their ability to pay towards their care. The Council continues to treat all service users as separate individuals, resulting in a higher combined allowance for couples than set out in the guidance.
- 2.1.3 In addition, whilst the Council agreed that notional income from capital would be applied at £1 for each £500 over £10,000, COSLA guidance includes an option to use £1 for each £250 over £6,000 for individuals under the state pension age.
- 2.1.4 Although, as set out in the COSLA guidance, there are potential equalities issues to consider in applying separate rates based on age and marital status, further income could be generated if more restrictive allowances were applied.

Recommendation

The Service should consider whether it remains appropriate to include more generous allowances than set out in the CoSLA guidance.

Service Response / Action

Agreed. We did consider the level of allowances when revising the policy however rates have not been increased for a number of years and we were conscious of the impact on service users. We are committed to reviewing the policy annually and are proposing a phased approach to future changes. The level of allowances will be considered at one of the annual reviews.

Implementation Date

April 2020

Responsible Officer

Lead Strategy and
Performance Manager

Grading

Important within audited
area

- 2.1.5 The new policy was to be implemented as part of the programme of roll-out of self-directed support, managed by the SDS Project Manager and overseen by the SDS Programme Board, and was to include a transition period whereby any increase in charges to individuals would be subject to a phasing in period over the 3 years to 2017/18. The policy included an intention to charge 70% of the cost to the Council of care provided, subject to a limit of 67% of a person's available income after allowances were taken into account.
- 2.1.6 Internal Audit report AC1617 Self-Directed Support (October 2016) noted that this policy had not yet been implemented, and the Service agreed to complete and implement the policy and associated guidance by March 2017. Whilst a new project was commenced to review charging and implement an appropriate policy, subject to approval by the Integration Joint Board (IJB) and the Council, it was not possible to conclude this work in time to implement a new policy from April 2019. Approval was sought and obtained for the new Policy from the City Growth and Resources Committee in June 2019.

2.1.7 Charges until this time were therefore still largely based on rates for specific services, last updated in 2011: contrary to the Committee's decision that this methodology should be discarded. Whilst costs have increased with inflation, charges have not. There is a risk of increasing pressure on Council and IJB budgets as a result. However, as charges are based on ability to pay, overall potential increases in income may be constrained.

2.2 Application of Charges

2.2.1 Review of a sample of records showed that in general the rates set out in the 2011 policy are being applied where a chargeable service has been recorded.

2.2.2 However, not all payments to or on behalf of service users fit into one of the specific service charge categories. The main charging categories are home care, respite care and housing support. The 2015 policy stated that except for statutory services and those delivered free in accordance with national policy, everything else must be considered for charging. The Service has stated that the existing 2011 policy, and indeed the 2015 revised policy, was not clear or explicit on all aspects of charging. As a result, the Service considered that there was no basis for charging, and has not done so.

2.2.3 This included 330 service users recorded on CareFirst as in receipt of 1:1 day care support. Although the 2015 policy identified this as 'in scope for charging', the Service considered that there was no basis to charge under the 2011 policy for this type of care. A decision could have been made to charge between £4.20 per hour and £15.05 per hour. The number of hours was not available from the Service.

2.2.4 A further 647 service users have been in receipt of sheltered housing support services, which have not been charged for. Charges of £12.78 per week were to have been phased in during 2015 and 2016. Letters have been sent to affected service users in January 2019 to inform them of the cost and to invite them to complete a financial assessment. Up to £430,000 of chargeable income may therefore have been foregone per annum.

2.2.5 In addition, 667 respite charges of £73.50 per week had not been invoiced since January 2018, totalling £81,385. Whilst the Service intends to issue invoices some of the service users are now deceased or cannot be traced. For those to whom invoices can be sent, any delays could impact on ability and willingness to pay.

2.2.6 If charges are not applied in accordance with policy, or payment is not sought promptly, there will be increased pressure on the Service's finances.

Recommendation

The Service should ensure all chargeable care and support is charged for, and invoiced timeously following its delivery.

Service Response / Action

Agreed. From 1 April free personal care will not be chargeable providing the eligibility criteria is met for service provision. A practice note is to be issued to staff summarising implementation and recording of FPC packages on Carefirst for under 65's.

Regarding the 1:1 day care support, there is provision in the new charging policy for this service to be chargeable. A timeline is currently being drawn up for the implementation of the systems and process changes for that new policy.

Regarding the sheltered housing support services, the affected service users have been informed and charging commenced. Checks are now being built into the process to cross match chargeable clients monthly to ensure that these charges are correctly and timeously raised.

Regarding the respite charges, these were in relation to information transfer from local authority homes and are now being issued. A cross check report is now being prepared that will enable checks to ensure that these are correctly and timeously raised and will be reviewed monthly.

Improving systems and processes for charging (particularly in relation to the new approved charging policy) is a priority for both the Social Care Partnership, Carefirst Team and Finance. Improvements are being made to interface automatically with the financial system and a six sigma review is being undertaken. Ensuring the resourcing of these improvements is being prioritised by the service. This work is being linked with the digital programme for the council.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
March 2020	Service Manager; Controls Accountant (Financial Assessment Team Manager); Performance Management Team Manager	Major at a Service Level

2.2.7 It was established that financial assessments are not always being submitted by Care teams promptly following agreement to provide a chargeable service, therefore delaying invoices being raised by Finance for service users' contributions. Whilst ability to pay should not affect a service user's right to receive support, the Service needs to ensure that where charges can be applied, this is progressed timeously. Otherwise, debts may accrue, or service users may be treated inequitably.

2.2.8 Regular monitoring of chargeable services which have not yet been financially assessed could assist in highlighting cases where this needs to be escalated.

Recommendation

The Service should ensure that where new chargeable services are agreed, and an individual consents to a financial assessment being undertaken, this is completed and submitted to Finance promptly.

Service Response / Action

Agreed. Ongoing work between Social Care Service Managers and the Financial Assessment team in liaison with the Legal team is underway regarding the implementation and escalation process to address delayed or non-compliance with return of paperwork. The level of requirement by clients to submit evidence to support information is being reviewed along with measures when this is not completed.

Financial workstream outputs will deliver a more streamlined assessment process between council teams involved.

Both the service and the Finance Team will actively monitor the timescales for the progress of assessments and will escalate any issues to the Charging Policy Monitoring Group.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
March 2020	Service Manager; Controls Accountant (Financial Assessment Team Manager)	Significant within audited area

2.3 Financial Assessment Reviews / Appeals / Waive of Charges

- 2.3.1 Whilst there is staff guidance on application of the charging policy, including how to undertake reviews (where a service user requests an updated financial assessment), appeals, and “waive of charges”, this was last updated in 2011. It therefore pre-dates health and social care integration, and the Council’s Transformation programme, and references practices, officers / post titles, and locations, which are no longer relevant.
- 2.3.2 Policy indicates that charges may be waived for service users who have a progressive disease where death as a consequence of that disease can reasonably be expected within 6 months, as evidenced through a DS1500 form or a letter from the General Practitioner or Hospital Consultant. The service user is assigned a separate category within CareFirst, however there is no written procedure for receipt and recording of this evidence, undertaking assessments as relevant, or reviewing the case after 6 months has passed.
- 2.3.3 From a sample of six cases, there were two individuals identified where end of life care had been in place for some time: one for nearly 3 years and the other for 1 year. The Service was unable to produce evidence to support the end of life care, for example a copy of the DS1500 or letter from the doctor and whether the individual has been reviewed after 6 months.
- 2.3.4 The policy also allows for situations where a waive of charge may be requested, for a limited period, in light of extenuating circumstances. There was one waive of charge during 2018, authorisation for which was requested 88 days after the chargeable service commenced, and was retrospectively approved by the Chief Finance Officer 87 days later after being considered by various officers - though charges were suspended in the interim. There are no system records or procedures in place to ensure cases are reviewed at the end of the agreed period, however in this instance the time limited waiver was superseded by a revision to the level of service and a charge is now being applied.
- 2.3.5 It is important that waive of charges are authorised promptly in order to avoid hardship for an individual where appropriate, logged onto CareFirst where appropriate, noting a date for a review to be undertaken, establishing whether the waiver still applies and subsequently collecting any contributions where necessary.

Recommendation

The Service should update procedures for the approval, recording and monitoring of financial assessment reviews, appeals and waive of charges.

Service Response / Action

Agreed. As part of the review of the Contributing to your Care Policy we will review the evidence requirements for end of life care provision and the timescales for Waiving of Charge decisions. Procedures for staff will also be updated and distributed.

Implementation Date

September 2019

Responsible Officer

Lead Strategy and
Performance Manager

Grading

Significant within audited
area

- 2.3.6 There had been no service user requests for financial assessment reviews or appeals received during 2018.

2.4 Chargeable Services Debts

- 2.4.1 The City Growth & Resources Committee agreed debt recovery and service income policies in November 2018. These include collection and recovery methods and explain that debts can only be written off by the Chief Officer – Finance, or the Chief Officer –

Customer Experience, up to £25,000, in accordance with the Council's Financial Regulations.

- 2.4.2 Whilst the latter may delegate this authority to nominated officers this does not currently extend to the Chief Finance Officer (AHSCP). As noted above at 2.3.4, if authorisation requirements are unclear or cross service boundaries, this can lead to delays.

<u>Recommendation</u> The Service should ensure appropriate officers have delegated authority to write off debts and / or waive charges.		
<u>Service Response / Action</u> Agreed. The Chief Finance Officer (AHSCP) has received a delegation from the Council's Chief Officer – Finance to write off debts and / or waive charges for adult social care.		
<u>Implementation Date</u> Implemented	<u>Responsible Officer</u> Chief Finance Officer	<u>Grading</u> Important within audited area

- 2.4.3 There were over 2,800 Social Care Charging debts overdue by 30 days or more as at 6 December 2018 totalling just over £1.6 million, some of which date back to 2012. None were written off during 2018.

- 2.4.4 The policy sets out that the Business Services Transaction Team Leader has discretion to defer recovery action in circumstances where the debtor is a vulnerable person or in respect of services essential to well-being – including social care, with application of this discretion to be reported on a monthly basis. However, there is currently no link between the Business Services Transaction Team, Finance and Social Work Teams to ensure service users accruing debts are adequately supported at appropriate stages – before further debts accrue.

<u>Recommendation</u> The Service should ensure appropriate procedures are in place to monitor debts and where appropriate provide support to service users in their management of them.		
<u>Service Response / Action</u> Agreed. Group to be established to maintain oversight of monitoring and recovery. Group will consist of stakeholders from ACHSCP and ACC Finance and Business Services. The Group will meet to review progress quarterly. Actions to ensure sensitive and timely recovery of Social Care Charging debts are being implemented in response to the findings of the Debtors System Audit AC1902 and the Service Income improvement plan.		
<u>Implementation Date</u> December 2019	<u>Responsible Officer</u> Lead Strategy and Performance Manager	<u>Grading</u> Important within audited area

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	<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

Local Area Network

2019-20 summary

Local Area Network ('LAN') scrutiny process

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group ('SSG'). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks.

The arrangements for coordinating scrutiny at a local level include a LAN for each council. LANs are led by each council's appointed auditor, being KPMG LLP in respect of Aberdeen City Council ('the Council'). LANs bring together relevant scrutiny bodies, typically Audit Scotland, Care Inspectorate, Education Scotland and the Scottish Housing Regulator, to share information and intelligence on an ongoing basis and to carry out a Shared Risk Assessment ('SRA'). The purpose of the SRA is to inform discussions between the LAN and its council and to inform the National Scrutiny Plan for local government, which is published on Audit Scotland's website.

During 2018, the SSG reviewed the effectiveness of national scrutiny coordination and the SRA process. As a result, a number of changes are being made, the most notable being no requirement for LANs to produce local scrutiny plans ('LSPs'). The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year, rather than a specific one-off approach.

A LSP has therefore not been prepared for the Council. Instead, the planned scrutiny activity, if relevant, of the key LAN partners is set out in this document.

Summary of scrutiny activity for 2019-20

KPMG LLP

The 2018-19 audit process will be fully concluded by 30 September 2019 following certification of various grants, although the annual audit report on the annual accounts is presented in June 2019. An audit strategy document in respect of the 2019-20 financial year will be presented to the February 2020 Audit, Risk and Scrutiny Committee meeting.

For 2019-20 no scrutiny activity is planned in addition to the audit, which is performed in accordance with Audit Scotland's Code of Audit Practice. The wider scope areas of the audit are expected to continue to focus on the progress of the Council's transformation programme and delivery of required savings to achieve a balanced budget. A Best Value Assurance Report ('BVAR') is scheduled for the 2020-21 financial year, being year five of the audit appointment. In 2019-20 one Best Value area, Equal Opportunities, will have specific focus in the annual audit, as part of the five year coverage of Best Value areas in advance of the BVAR.

Scottish Housing Regulator ('SHR')

An engagement plan has been published by SHR in respect of each registered social landlord, including Aberdeen City Council. For 2019-20 SHR is engaging with the Council about its site for gypsy/travellers. SHR will review the action plan prepared by the Council, which sets out its plans to achieve full compliance by 30 June 2019.

Each registered social landlord must submit an Annual Return on the charter. On receipt of the return, SHR will review service quality performance for improvement with a particular focus on the following areas:

- tenants who feel the landlord is good at keeping them informed about services and decisions;
- tenants satisfied with opportunities to participate in landlord's decision-making;
- complaints management;
- average days to re-let properties; and
- factored owners' satisfaction with the factoring service.

There is no planned scrutiny over and above the areas set out above.

Education Scotland

Engagement activity is to be confirmed.

Care Inspectorate

A review of health and social work services for older people was published at the end of 2018 and no further follow up activity is planned. Following inspection activities earlier in the year, the joint inspection of services to children and young people report is due to be published in September 2019.

The Care Inspectorate is leading on scrutiny and assurance activities in respect of community justice partnerships and criminal justice social work. Proposed activities for 2019-20 have yet to be confirmed. Inspections of regulated services take place across the year on both a scheduled and unannounced basis.

Audit Scotland

Performance audit work is ongoing and the following audits due for publication in 2019-20 are of relevance to Aberdeen City Council:

- Revenue financing of assets
- Scotland's Region and Growth Deals
- Early learning and childcare: follow-up audit

The following performance audits due to be published in 2020-21 will also be of relevance to Aberdeen City Council. The extent to which they will involve the Council in fieldwork visits has still to be determined:

- Affordable housing
- Educational outcomes

- Digital progress in local government
- Supporting economic growth: the role of local authorities
- Social care sustainability
- Outcomes for children with additional support needs
- Skills investment and planning and investment
- Waste management

This report sets out the planned scrutiny and monitoring. As with any local authority, there may be additional activities during the year to respond to emerging risks, including the use of legislative powers to inspect or an agreed response to correspondence received by Audit Scotland.

20 June 2019

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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 2019

19 June 2019

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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 Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

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Significant risks	Pages 7-12
– Management override of controls fraud risk	Page 7
– Expenditure recognition fraud risk	Page 8
– Revaluation of council dwellings, other land and buildings, surplus assets and investment properties	Page 9
– Retirement benefits	Page 10
Wider scope areas	Page 19

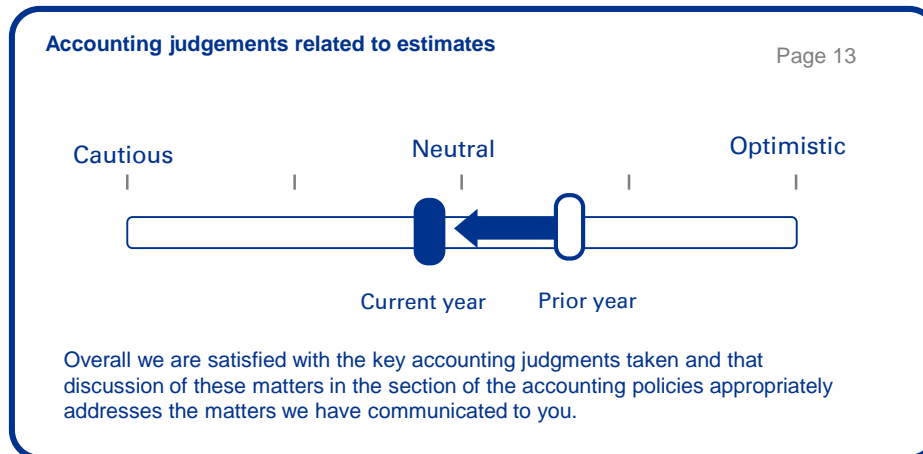
Open control recommendations	Appendix four Number
Significant control recommendations (IT controls)	2
Other control recommendations (IT and general controls)	2
Other control recommendations	1

Outstanding matters
– Testing of the consolidation, including consolidation journals.
– Receipt of support for voluntary severance testing
– Receipt of support for remuneration report testing
– Receipt of a few items of support for valuation inputs testing
– Receipt of a few items for expenditure testing support

Uncorrected audit misstatements	Page 43	
Understatement/(overstatement)	£m	%
Deficit on provision of services	(1.8)	(1.7)
Net assets	(1.8)	(0.1)

Corrected audit misstatements	Page 42	
Understatement/(overstatement)	£m	%
Deficit on provision of services	(11.5)	(11.1)
Net assets	-	-

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Scope and responsibilities

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 the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit, Risk and Scrutiny Committee (ARSC) on 14 February 2019.

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 wider scope areas. The reports incorporates both aspects of the Code.

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) issued by the Financial Reporting Council and the Code. Appendix seven 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 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 report to those charged with governance and our presentation to ARSC, together with previous reports to ARSC throughout the year, discharges the requirements of ISA 260.

Limitations on work performed

This Report is separate from our audit report in the annual accounts and does not provide an additional opinion on the Council’s annual accounts nor does it add to or extend or alter our duties and responsibilities as auditors in accordance with the Code.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The Council will need to consider whether to give public notice in respect of this report under the Market Abuse Regulation as well as the Disclosure and Transparency Rules. We draw attention to the section, “About this report” on the contents page.

Audit opinion

Following approval of the annual accounts by the ARSC we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2019, and of the deficit for the year then ended. We also expect to issue unqualified opinions on the truth and fairness of the state of the Aberdeen City Council Charitable Trusts' affairs as at 31 March 2019. The long form audit opinion, prepared as a requirement of the Council's status as an EU Public Interest Entity, in accordance with ISA 700, is included in annual accounts. 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 2018-19 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts 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.

Annual accounts preparation and audit readiness

The Council further accelerated its financial reporting and external audit timetable for 2018-19, with complete draft accounts approved on 30 April 2019. The statutory deadlines are 30 June 2019 for unaudited accounts and 30 September 2019 for audited accounts. The Council's finance team continued to perform well in its delivery of high quality annual accounts and in its readiness for audit, effectively responding to our queries during the audit. There remain opportunities to improve in respect of accounting for property transactions and revaluations.

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

Three audit misstatements were identified during the audit, of which one was adjusted. There are two unadjusted audit misstatements.

Written representations

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

Materiality and summary of risk areas

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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 £8.7 million for the Council's standalone financial statements, and £9.21 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 £5.5 million. For the Group accounts it was £6 million. We report all identified 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 judgements 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;
- Expenditure recognition fraud risk;
- Retirement benefits*; and
- Revaluation of council dwellings, other land and buildings, surplus assets and investment properties*.

In accordance with paragraph 19A of ISA 700, we are required to describe those assessed risks of material misstatement which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, in our audit opinion. The * matters shown above have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and on directing the efforts of the engagement team. We report on these areas in our financial statements annual audit opinion.

We also previously identified an audit focus area in respect of Capital Expenditure.

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

Significant risks

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Management override of controls fraud risk</p> <p>Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This is an assumed risk per ISA 240 <i>The Auditor's responsibilities related to fraud in the audit of financial statements</i>.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> — controls testing and substantive procedures, including over journal entries and accounting estimates (such as over property revaluations and pensions); and — review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual. In 2018-19 this included voluntary severance and accounting for Lochside Academy on its initial recognition. 	<p><i>We did not identify any indicators of management bias or management fraud.</i></p> <p>Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of the planned procedures. No issues were identified.</p>

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Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Expenditure recognition fraud risk</p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We do not consider that there is a significant risk in relation to improper income recognition, given the nature of the Council's income; being primarily statutory, solely related to the financial year, readily supported by third party evidence and therefore has a limited risk of manipulation.</p> <p>We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, and depreciation. These costs are routine in nature and have limited risk of manipulation. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account.</p> <p>We have not rebutted the assumed risk in respect of the remaining expenditure accounts (£562 million) within the £1,017 million (in 2018-19) gross expenditure.</p>	<p>We performed the following testing:</p> <ul style="list-style-type: none"> — Comparison of the outturn with the in year budget monitoring, considering variances from budgeted reserves utilisation to actual utilisation. — Testing of controls specific to capital versus revenue allocation. — Testing of expenditure cut-off including a search for unrecorded liabilities. — Detailed testing of transactions focusing on the areas of greatest risk, including creditors, accruals and provisions to challenge completeness of these balances. — Review and challenge of management in respect of estimates for evidence of bias. — Testing of journal entries in relation to expenditure for evidence of management bias. 	<p><i>We have concluded that that expenditure is appropriately recognised.</i></p> <p>We obtained sufficient, appropriate evidence for variances from budgeted reserves utilisation to actual utilisation.</p> <p>No exceptions were identified in respect of the specific controls testing, expenditure testing and testing of high risk expenditure journals.</p> <p>Having closed the finance ledger to routine transactions on 15 March, the Council undertook an exercise to require officers to consider all invoices between 15 March and 30 April and consider whether they had been or should be accrued. Our testing of this exercise did not identify errors in expenditure cut-off.</p> <p>No indications of management bias were identified.</p>

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Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Revaluation of council dwellings, other land and buildings, surplus assets and investment properties</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees certain land and buildings revalued over a five year cycle. In 2018-19 the following assets were revalued, totalling £321 million:</p> <ul style="list-style-type: none"> — Libraries. — Waste disposal sites. — Travellers sites. — Secondary schools (including academies). — Depots <p>The Council also holds £146 million of investment property, held at fair value, which is subject to annual revaluation.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of council dwellings, other land and buildings, surplus assets and investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for annual accounts as a whole, and possibly many times that amount. This represents a Key Audit Matter in the audit opinion.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Understanding the extent of the Council's involvement in the valuation process to assess if appropriate oversight occurred. — Assessing the approach that the Council has adopted to evaluate the risk that the carrying value of assets not subject to valuation is materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. <p>Assessing valuer's credentials:</p> <ul style="list-style-type: none"> — In relation to those assets which have been revalued during the year, critically assessing the independence, professional qualifications, competence and experience of the Council valuer. <p>Assessing methodology choice and benchmarking assumptions:</p> <ul style="list-style-type: none"> — Utilising our internal specialist to critically assess the methodology used by the Council's valuer by considering if the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and accounting standards. — Challenging the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data. — Meeting with the Council's valuer to understand the assumptions and methodologies used in valuing the assets revalued during 2019 and the market evidence used to support the assumptions. — Challenging the Council's assessment of why it considers that the land and buildings not revalued in 2019 are not materially misstated, by reference to market evidence relevant to the assets. <p>Input assessment</p> <ul style="list-style-type: none"> — Assessing the observable inputs used in the valuations by reference to supporting evidence. <p>Our sector expertise</p> <ul style="list-style-type: none"> — Assessing, in light of our knowledge of the Group's assets and changes in market conditions, the assumptions used compared to our own expectations. 	<p><i>We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable on an appropriate basis.</i></p> <p>We concluded that the Council's valuer is appropriately qualified, competent and experienced to prepare the Council's valuations.</p> <p>Our internal valuation specialist challenged the Council's valuer in terms of assumptions and comparable evidence as set out opposite. Support for the assumptions used was provided, for each of the assets selected for testing. The ready availability of support represents an improvement on last year's audit.</p> <p>The Council documented the basis for its assertion that the land and buildings not revalued in 2019 are not materially misstated, we concur with the conclusion.</p> <p>For each of the assets sampled, management supported the key inputs to the asset valuation.</p> <p>(Small number of input evidence outstanding)</p> <p><i>Unadjusted audit difference (see page 43)</i></p> <p>We identified an error in respect of Harlaw Academy where the valuer used an incorrect land area to calculate the valuation as at 31 March 2019. The overstatement to the land carrying value is £1.8 million.</p>

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Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefits</p> <p>The net pension liability (£322.1 million as at 31 March 2019), including assets of £1.36 billion) represents a material element of the Council's balance sheet. The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2017.</p> <p>Small changes in the assumptions and estimates relating to discount rate, inflation rate, mortality/life expectancy and rate of increase in pensionable salaries which are used to value the pension obligation (before deducting scheme assets) would have a significant effect on the pension liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the pension benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole, and possibly many times that amount.</p> <p>This represents a Key Audit Matter in the audit opinion.</p>	<p>Our audit approach included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary to calculate the pension obligation. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> — Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. <p>Assessing transparency:</p> <ul style="list-style-type: none"> — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to the assumptions used by the actuary. 	<p><i>We are satisfied that the retirement benefit obligation:</i></p> <ul style="list-style-type: none"> — <i>is correctly recognised on the balance sheet as at 31 March 2019;</i> — <i>has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and</i> — <i>assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable.</i> <p>Results of testing of controls in respect of provision of information to the actuary were satisfactory.</p> <p>The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis.</p> <p>Guaranteed minimum pensions ('GMP') equalisation</p> <p>Following a UK High Court judgement on 26 October 2018, gender equalisation of GMP is required to remediate the unequal benefits and retirement ages for men and women from 1990.</p> <ul style="list-style-type: none"> — The UK Government consultation on GMP ended in December 2018 and extended the interim solution already in place for GMP equalisation from 2016 for the period 2018-2021. A review of the process in respect of normalising this arrangement is ongoing. — The Council's actuaries do not include the full effect of the interim indexation solution in the calculation of scheme liabilities (the actuaries have only recognised the effect for those reaching state pension age up to April 2021). This is on the basis of materiality and we concur with this judgement.

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Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefits (continued)</p> <p>See previous page</p>	<p>See previous page</p>	<p>Continued...</p> <ul style="list-style-type: none"> — No liability is recognised in respect of the effect of GMP post 2021 on the basis that a 'trigger event' has not occurred, i.e. the UK Government consultation on any potential future scheme amendment is ongoing. We concur with this on grounds of materiality. — We consider that appropriate disclosure of the above is made in the contingent liabilities note of the annual accounts. <p>McCloud judgement</p> <p>On 20 December 2018 the Court of Appeal ruled that transitional arrangements offered to some public sector pension scheme members amounted to unlawful discrimination. This related to new schemes set up in 2015 which typically meant older workers could stay in the existing, more generous schemes, while younger workers had to transfer to the new schemes.</p> <ul style="list-style-type: none"> — This ruling potentially gives rise to additional liabilities for local government pension schemes. It is an ongoing development and the assessment of the potential impact on all local government pension schemes is ongoing. — The Council's actuary has not made any allowance for the ruling because of uncertainty around an appeal by the UK Government as well as uncertainty in the amount which would be recognised. — We concur with this approach and consider that appropriate disclosure is made in the contingent liabilities note of the annual accounts.

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Other areas of audit focus

Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
<p>Capital expenditure</p> <p>The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. Key projects in progress in 2018-19 include The Event Complex Aberdeen ('TECA') and the Aberdeen Western Peripheral Route ('AWPR'). During the year Lochside Academy was also recognised on the balance sheet, being a Public Private Partnership ('PPP') asset.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider it to be an area of audit focus. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Testing the design and operating effectiveness of controls over the capital projects. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. <p>Control re-performance:</p> <ul style="list-style-type: none"> — Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. <p>Tests of detail:</p> <ul style="list-style-type: none"> — Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Review and corroboration of manual journals. — Considering the accounting for Lochside Academy, being the initial recognition of the asset in accordance with the CIPFA code and subsequent measurement. This included agreeing the key facts to the underlying agreement. 	<p>The controls tested were found to be effective.</p> <p>Other than for Lochside Academy, no exceptions were identified in the tests of detail, with supporting documentation available for each item sampled. The statistical sample of capital additions included items ranging from £2,436 to £13.14 million.</p> <p><i>We have concluded that the treatment of capital expenditure is satisfactory, after the adjustment included below.</i></p> <p><i>Adjusted audit difference (see page 42):</i></p> <p>Lochside Academy is a PPP asset funded substantially by Scottish Government. The construction cost, to be repaid over the life of the PPP agreement, was £45.6 million. The asset was revalued as at 31 March 2019 on a Depreciated Replacement Cost basis, being the appropriate valuation basis, and valued at £34.1 million (this asset is included in the PPE assets revalued at the year end, see page nine).</p> <p>The Council recognised the capital addition at £34.1 million although the CIPFA Code requires the initial recognition to be at the value of the "portion of payments paid for the asset", being £45.6 million. An audit adjustment was therefore agreed with the Council, to increase the capital addition by £11.5 million, and recognising an impairment charge of £11.5 million. This has no impact on net assets as at 31 March 2019.</p>

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 judgments in the 2018-19 financial statements and accounting estimates. We set out our view below:

Subjective areas	2017-18	2018-19	Commentary
Bad debt provisions (excluding Council tax) £23.8 million	4	3	In the 2016-17 annual audit report we recommended that the Council reviews the bad debt provision methodology, and this was implemented in the subsequent year (2017-18). For 2018-19 the Council has further refined the methodology with a range of provision rates ranging from around 10% (for debts between 30 days and 365 days old) to around 90% for debts up to five years old. This is in part in recognition of new requirements of IFRS 9. Debtor provisions (excluding council tax) increased by £4.8 million. We concur with the provisioning approach and we note that this is not a material area of judgement.
Council tax bad debt provisions £33 million	2	3	The council tax provisioning methodology has also been revised in the current year, adopting a less complex calculation. There was a £2.6 million decrease in the council tax bad debt provision from £35.6 million in the prior year. Collection rates have remained stable year-on-year and we note that the change in methodology relates to a previous recommendation from our external audit (see page 52). We concur with the provisioning approach and we note that this is not a material area of judgement.
Pension assumptions Net liability: £322.1 million	4	3	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. We consider that the discount rate used (2.4%) to be balanced, the CPI inflation assumption (RPI less 1.2%) to be optimistic, and mortality – future improvements (CMI 2015 projections model, 1.75%/ 1.5% long-term trend rate for males/females) to be cautious. Salary inflation assumptions are in line with Council expectations. We consider that the return on pension assets assumptions to be appropriate.
Council dwellings, other land and buildings, surplus assets, and investment property revaluations: £2,584.7 million	3	3	Our findings over the valuation of Council dwellings, other land and buildings, surplus assets, and investment properties are discussed on page nine. 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 3.5% RPI assumption	2	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 broadly in line with publically available forecasts albeit cautious.

Level of prudence



Going concern

Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed.

The Council had net assets of £1.29 billion (2017-18 £1.4 billion) as at the balance sheet date. Net assets decreased on 2017-18 by £94.9 million, reflecting the total comprehensive expenditure for the year.

During 2018-19, the Council set a net revenue expenditure budget of £526 million (being £439 million on the General Fund and £87 million on the Housing Revenue Account). The core outturn is a surplus of £8.3 million (being £0.5 million on the General Fund and £7.8 million on the Housing Revenue Account).

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 general revenue grant (which includes non-domestic rates income) of £342.3 million is sufficient to meet debts as they fall due. The Council also has reasonable certainty over income sources, such as Council Tax income. Financial assets were £115.7 million as at 31 March 2019. This is lower than as at 31 March 2018 (£154.9 million), reflecting the planned capital expenditure for the year.

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council approved savings for 2019-20 of £41.2 million, across a wide range of the activities of the Council, in order to achieve a balanced budget. Delivery against the savings is being monitored on a regular basis and the Council has demonstrated the ability to deliver on savings targets in prior years.

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Conclusion

The Council has a strong net assets position and a significant value of available financial assets. It has put in place savings plans and prepared short, medium and long term financial forecasts. These are inherently dependant on a number of assumptions out with the Council's control although the Council is currently performing broadly in line with budget. Management has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control

In light of the financial position, the short-term and medium-term forecasts, the confirmation of general revenue grant and the reasonable certainty over other significant income streams, we are content that the going concern assumption is appropriate.

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, following some suggested enhancements are content with the proposed report.</p>
<p>Our view of Alternative Performance Measure (“APM”) presentation</p>	<p>As an EU Public Interest Entity (“EU-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 CIPFA Code requires an expenditure and financing analysis is presented within the financial statements, providing 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 £8.3 million underspend against budget (including HRA) 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>We consider the presentation of alternative performance measures in the management commentary to be appropriate in the context of the Council’s accounts.</p>

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Management reporting in financial statements (continued)

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Remuneration report</p>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</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>
<p>Annual governance statement</p>	<p>The statement for 2018-19 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 reviewed a draft of the proposed statement in April 2019, and provided the Assurance Manager with suggestions to support its development.</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>

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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 seven 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.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 2.5% of total assets. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.	We expect to issue 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.	The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report was presented to the Audit and Performance Systems committee of the Aberdeen City Integration Joint Board on 28 May 2019. No significant exceptions were identified during the audit.	We issued an unqualified audit opinion for the IJB on 19 June 2019.
Bon Accord Care Limited	As set out in our audit strategy document, we provided group audit instructions to the component auditor of Bon Accord Care Limited, a significant component in view of its material retirement benefit obligations. Formal reporting from the component auditor has been provided and no audit adjustments were raised. We reviewed the component auditor's audit files in relation to retirement benefits and discussed the key judgements with the engagement director. There were no significant findings that we would be required to report.	The component auditor issued an unqualified audit opinion Bon Accord Care Limited. There are no matters to report which would impact the group accounts.

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New accounting standards

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New accounting standards for 2018-19

The CIPFA code was revised for 2018-19 to take into account IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward. Given the nature of the Council's income, which is typically a fee in exchange for a service and/or related only to the Council's financial year, there is no material impact on the Council's accounting for income.

IFRS 9 includes a single classification approach for financial assets which is driven by cash flow characteristics and how an instrument is managed, and a forward looking "expected loss" model for impairment. The implementation of this standard does not have a material impact on the annual accounts.

IFRS 9 does, however, change several aspects of accounting for financial instruments and debtor provisioning. The most notable change being the removal of the Available For Sale Financial Instruments Reserve and reclassification of certain of the Council's equity investments from "amortised cost" to "fair value through profit and loss".

We consider that the Council's disclosures for the transition to IFRS 9 to be appropriate.

Future accounting and audit developments

The most significant change in the 2019-20 CIPFA Code is in respect of the adoption of IFRS 16 *Leases*. This standard 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.

The Council is conducting an exercise to consider the impact on the 2019-20 annual accounts.

Audit dimensions introduction

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

It remains the responsibility of the audited body to ensure that it makes 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 work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

All appointed auditors are also required to consider areas of focus identified by Audit Scotland, we include our view on each area as within the relevant wider scope section.

Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. 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 Best Value audit work integrated into our audit in 2018-19 focused on one of the seven areas: Performance, Improvement and Outcomes. The findings of this work are reported on pages 33 to 35.

Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities:

- the clarity of Council priorities and quality of long-term planning to achieve these;
- how effectively councils are 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 scope work over the five year appointment.

Our approach

We performed a range of procedures to inform our work:

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

We use icons to highlight specific matters of note throughout this report.

Key:  Best practice  Area of ongoing development

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

2018-19 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £103.9 million for the year to 31 March 2019, of which £81.3 million relates to the General Fund. The deficit includes various accounting adjustments as required by the CIPFA code, such as in respect of actuarial movements and revaluation of property, plant and equipment. Excluding these adjustments, the Council reported a surplus of £8.3 million, being £0.5 million in respect of the General Fund and £7.8 million in respect of the Housing Revenue Account.

General Fund

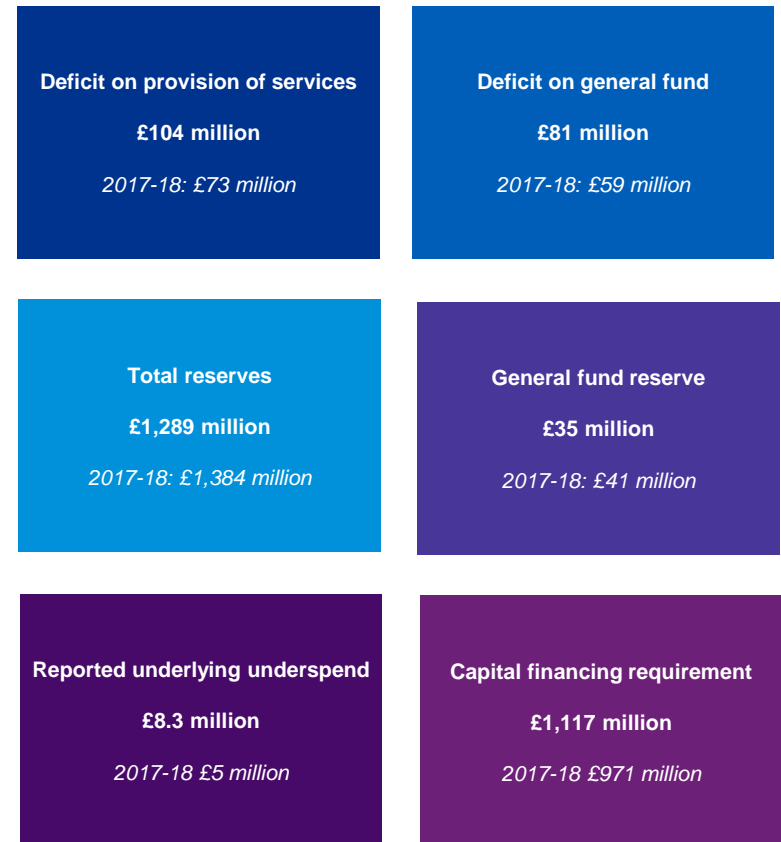
A balanced budget was approved at the start of the year, incorporating a final saving requirement of £4.9 million. The £0.5 million General Fund underspend represents around 0.1% of the net services expenditure, although it is the net result of overspends and underspends within the Council's functions as well as re-profiling of Loans Fund charges. The largest value overspends were:

- Foster care costs (£2.8 million), as a result of foster carer vacancies and the resultant use of external agencies.
- Out of authority placements (£2.1 million), reflecting the rising costs and the placement decisions.
- Building Services income shortfalls (£3 million), due to tradespeople shortfalls and the impact on completion of works.

The largest element of underspend is in relation to the Council's review of Loans Fund charges as permitted by the Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016. The Council changed the profiling of Loans Fund charges for the repayment of its outstanding debt liability for debts issued after 1 April 2016. This gave rise to a £4.3 million gain relative to the budget.

The 2018-19 budget also included contingencies, in recognition of the uncertain nature of needs and pressures within any local authority, and these enabled the Council to deliver a broadly balanced outturn overall.

Financial headlines



(Source: audited annual accounts)

Financial management (continued)

2018-19 financial performance (continued)

Housing Revenue Account ("HRA")

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure.

The £7.8 million underspend on the provision of services reported for 2018-1, reflects a £3.5 million surplus from Loans Fund charges profiling (see page 20) and a surplus from the extension of useful economic lives of housing assets.

The HRA acquired four properties from the General Fund at a value of £7.7 million, resulting in an increase in the General Fund reserve and a reduction in the HRA reserve. Closing HRA reserves were £12.3 million for use in future years.

Financial reporting

Quarterly financial reporting is provided to the City Growth and Resources Committee ("CGRC"), comprising a full set of financial statements with management commentary and additional notes to explain the financial position. Further detailed analysis of the results are provided in appendices, including in respect of HRA, Common Good Fund and the Capital budget. This is good governance in view of the listed debt, and remains leading practice in a local authority context.

The forecast outturn for the 2018-19 £438 million general fund budget as per the quarterly financial reporting is set out below, with the full year forecast as reported at each quarter presented to show the changes in expectations over the year.

Forecast outturn (£000)	Q1	Q2	Q3	Q4
(Underspend) / overspend	(75)	826	2,680	(562)

Over the course of 2018-19 a growing overspend was identified, and the pressures behind that overspend were set out for members within the reporting. The greatest uncertainty was in respect of the pay settlement which was not within the Council's control.

In view of the need to deliver a balanced budget, in Q2 members approved the officer

recommendation at the CGRC to "instruct the Corporate Management Team to stop and reduce net expenditure wherever possible with immediate effect". The delivery of a small surplus demonstrates the strong management of the Council's finances, noting that Loans Fund charge reprofiling supported the outturn.

Capital budget

There was a significant shortfall in capital expenditure relative to the £350 million budget, with £222 million invested in capital projects. The largest spend being in respect of TECA, where £135.6 million was incurred. The shortfall is in part due to reprofiling in respect of four proposed new primary schools, delays with the Union Terrace Gardens project and known delays in settling land claims for the AWPR.

In respect of TECA, a programme board provides scrutiny and oversight of the project. We reviewed the TECA cost monitoring processes and performed capital additions testing, noting that financial oversight of the project is strong, as is expected given the scale of the project.

Scrutiny and monitoring of the overall capital plan delivery is the responsibility of the Capital Programme Committee.

2019-20 budget proposals

The Council sets five budgets on an annual basis: General Fund; HRA; Capital; Common Good; and Pension Fund. Throughout July to November there is an iterative process of budget development, of transformation proposals and reporting through Corporate Management Team ("CMT") and Extended CMT ("ECMT"), concluding in November.

Officer proposals are submitted during that iterative process, for costing or consideration. Alternative proposals are then submitted by members or political groups, for consideration in advance of the meeting.

On 5 March 2019 the Council approved a detailed balanced revenue budget for 2019-20 and a five year high-level budget to 2023-24. The Council also approved a five year capital budget of £503 million, in addition to a housing investment program over the same period of £154 million.

We consider that the budgeting process is robust, and is supported by regular monitoring as noted opposite.

Financial management (continued)

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Accounts and audit process

2018-19 was the second year of the accelerated accounts timetable, with draft annual accounts issued to the ARSC on 30 April 2019, and the audit commenced on the same day. In order to approve the annual accounts by the end of June 2019, the subsidiary and associate entities also delivered to an accelerated timetable. The statutory deadline for signed annual accounts is 30 September 2019.



High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries. No significant issues arose during the audit and a low number of audit misstatements were identified. In the prior year there were misstatements related to the accounting for property revaluations and the audit of the revaluations themselves was not straightforward. Management's processes showed significant improvement in 2018-19, with evidence being readily available to support revaluations and the accounting treatment being appropriate.

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The pension scheme actuaries prepared disclosures based on estimated assumptions for the unaudited annual accounts. These assumptions were updated during the audit to reflect subsequent evidence, and significant changes were required to the annual accounts. This could occur in future years where there is market volatility in March, given that unaudited accounts are prepared in April and prior to March market data being available.

The ARSC meeting at which the unaudited annual accounts were considered was on 30 April 2019, compared to 8 May 2018 for the 2017-18 annual accounts. This year's timetable resulted in less time for the finance team to prepare the annual accounts, and some minor notes required amendment after the ARSC April meeting.



One key area of improvement was identified, as in prior years, being the robustness of considering significant contracts and their treatment in the annual accounts. As in the prior year an audit misstatement was identified in respect of a new contract, being the Lochside Academy initial recognition for 2018-19.



Notwithstanding this matter, we consider that the Council performed very well to achieve the June 2019 audit annual accounts timetable. We set out opposite our qualitative assessment of the readiness for the audit.

Readiness overview	2017-18	2018-19
Preparation and planning	H	H
Production of accounts	M	H
Oversight and review	M	M
Significant judgements	M	M
Supporting information	H	H

*KPMG qualitative assessment:
H/M/L – High/medium/low level of preparation, accuracy and detail*

Financial management (continued)

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Internal control

We consider that the Council has a generally robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. No exceptions were identified from the testing and the controls tested were:

- Budget monitoring.
- Bank reconciliations.
- Procurement: contract awards.
- Capitalisation of expenditure.
- Loans ledger reconciliation.
- HRA stock reconciliation.
- Council tax assessor report reconciliation
- Council tax banding rate reconciliation.

We noted in the prior year audit that although the Council demonstrates a good level of control through general IT controls, we were unable to place reliance on these controls in the audit. The primary reason for this was a lack of system logging and monitoring in place for IT privileged users. We did not plan to rely on these controls for the 2018-29 audit, given the work ongoing to implement the prior year recommendations.

In 2017-18 we made a total of eight recommendations and a summary of their status is below. The action plan is shown on page 44 onwards.

Status	Grade one	Grade two	Grade three
Implemented	-	1	3
In-progress/overdue	2	2	-
	2	3	3

Our view – financial management

We consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates advanced practice, in a local authority context, through quarterly financial reporting

The controls tested for the purposes of forming an opinion on the annual accounts were found to be effective.

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.

Audit Scotland's *Local Government in Scotland: Financial Overview 2017-18* report highlighted that councils face an increasingly complex range of challenges and continuing pressure on finances. Funding gaps across councils in 2018-19 totalled £0.3 billion, with Scottish Government revenue funding increasing by only 0.2% in real terms and demand growing. Funding gaps are expected to increase over subsequent years and most councils have a transformation programme underway.

The Council's Target Operating Model ("TOM") was designed in recognition of the need for financial restraint, as well as the growing demand pressures and changing customer expectations.

Target Operating Model

The TOM was approved by the Council on 23 August 2017 and represented a significant redesign in the operating model of the Council. It puts delivery of the outcomes within the Local Outcome Improvement Plan ('LOIP') at its core.

There are four phases to the transition to the model, each broadly aligned to a financial year. Phase one (2017-18) included the approval of the TOM design principles, organisational structure, transformation portfolio and supporting governance framework, engagement with a digital partner and realignment of staff roles within the approved First Tier structure.

Phase two (2018-19) was primarily related to further developing the structure, embedding new governance arrangements and progressing the digital transformation. Phase two was completed with key programmes being primarily on target.

Phase three (2019-20) is to continue to deliver the Council's digital strategy enabling the delivery of £125 million benefit realisation (savings) over five years from 2018-19 to 2022-23, and delivering the TOM by 2020-21. The medium term gap between income and expenditure is annually reviewed to take account of actual experience, current funding and operating conditions.

Implementation of the effective redesign of services and a move to a commissioning-led approach, including the digital strategy, is key in the delivery of the required savings needed to maintain financial sustainability over the short to medium term.

Annual budget presentation

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The annual budget was approved by Council on 5 March 2019. The budget report set out the general fund revenue and capital budgets for 2019-20, together with the general fund revenue budget for 2020-21 to 2023-24. The revenue budget showed the need to make savings in 2019-20 of £41.2 million. The savings were identified within the report, being a combination of income raising, cost saving and service redesign.

General Fund revenue budget and benefits realisation

The prior year (March 2018) General Fund revenue budget identified the need to deliver savings of £4.9 million in 2018-19 and the medium term outlook (2019-20 to 2022-23) demonstrated the ongoing need to deliver recurring savings across the Council. By 2022-23 the value of recurring savings required was forecast as £100.9 million. The Council reports a 2018-19 general fund surplus of £0.5 million, having delivered on the saving requirements.

When preparing the March 2019 budget report, the Council identified increasing service demands, (including costs of out of authority placement for children, fostering and kinship care allowances), pay settlements and uncertainty in respect of Local Government grant settlements. Together with the 2019-20 savings need of £41.2 million, the medium term financial outlook described in the report was consistent with previous years, that a significant level of recurring savings will continue to be needed. The total value required to 2023-24 is forecast as £133.2 million. If no action were taken by the Council then useable reserves of £405 million would be required to support current services.

Deficits are forecast for each of the next five years, before further savings plans:

General Fund revenue budget	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Gross expenditure	477,260	498,335	522,161	543,345	566,173
Gross income	(436,040)	(431,234)	(429,654)	(431,237)	(432,931)
Cumulative deficit	41,220	67,101	92,507	112,108	133,242

(Source: 5 March 2019 – Council report)

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Financial sustainability (continued)

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At the time of the budget setting report there was no national pay agreement and therefore assumptions were made for the 2019-20 and 2020-21 budgets. These were a pay award of 3% in 2019-20 and 2020-21, then 2.5% for 2021-2022. The 3% pay assumption was in line with the offer made by Local Government employers to trade unions on which agreement was eventually reached.

Teacher pay negotiations were concluded in April 2019 and additional funding from Scottish Government is being distributed to support a higher pay award. Both negotiations were for a three year period from 2018-19 to 2020-21.

Savings plans to deliver the 2019-20 balanced budget.

It is a statutory requirement to set an annual balanced budget. To achieve this a detailed savings plan was approved which identified £44.7 million of forecast savings. This included recurring items to be delivered through service redesign (£20.7 million), a reduction in in-year spending (£12.5 million), increases in fees and charges (£3.3 million), an increase in Council Tax (£5.6 million), a reduction in cost of assets (£1.4 million), and a reduction in cost of employees (£1.1 million). From these the Council decided on a range of options, totalling £41.2 million, to balance the budget.

The Council is transparent about the level of savings required in 2019-20 and over the medium term. Savings are required from transformation of the workforce and effective use of digital technology underpinned by services redesign. A Transformation Fund of £7.0 million is held as at 31 March 2019, to be utilised to make recurring savings through delivery of the Being Digital Strategy.

Progress against the delivery of the savings plan will be reported at the end of quarter one and work to assess and forecast the delivery of change, savings and / or income is in progress to meet the reporting deadlines set by the Council. We note that the Council has identified the individual elements of the £41.2 million and does not have a significant unidentified savings target.

Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2018-19, including £4.2 million in respect of the earmarked Transformation Fund. The Council utilised a total of £5.9 million General Fund Reserves in delivering the 2018-19 financial outturn.

As at 31 March 2019 the Council had uncommitted general fund reserves of £10.1 million which equates to 1.9% of Net Cost of Services of £520 million (2.2% as at 31 March 2018). These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place.

We consider that this level of reserves is reasonable for a Council of the size of Aberdeen City Council, however the risk for the Council is the non-delivery of savings which would impact on these reserves.

General Fund Reserves	31 March 2018 £000	Increase / (utilisation) £000	31 March 2019 £000
Transformation Fund	11,232	(4,229)	7,003
Other Earmarked Reserves	18,081	(368)	17,713
Uncommitted General Fund Reserve	11,384	(1,270)	10,114
Total General Fund Reserves	40,697	(5,867)	34,830

Cash and Short Term Investments (Liquidity)

Liquidity	31 March 2018 £000	31 March 2019 £000	Movement £000
Cash and cash equivalents	56,202	70,520	14,318
Short term investments	98,705	45,213	(53,492)
Short term borrowing	(79,435)	(197,228)	(117,793)
Current liquidity	75,472	(81,495)	(156,967)

As at 31 March 2019 cash and short term investments were £39.2 million lower than as at 31 March 2018, including an investment of £106 million on behalf of the North East Scotland Pension Fund.

Current liquidity reduced by £157 million year on year. This reflects investment in capital projects and in transformation, as planned at the start of the year and in accordance with the Treasury Management Strategy. It is also due to the use of internal borrowing to support day-to-day cashflows, rather than using long term borrowing for this purpose.

The Treasury Management Strategy states that investment priorities are security of capital and the liquidity of investments. Liquidity is a key measure of the Council's ability to meet its liabilities as they fall due. The Council's current asset/liability ratio is now 0.7:1. (1.3:1 in 2017-18), similar to the level before the bond was issued for capital investment in the City.

Borrowing

Total borrowing as at 31 March 2019 was £122.7 million greater than as at 31 March 2020, with overall borrowing being £1,093 million. The increase in borrowing is primarily funding investment in capital and transformation as noted opposite. Investment in Capital in the City was £216 million in 2018-19.

In respect of the £81.5 million negative liquidity as at 31 March 2019, we note that the Council has cashflow forecasts that show an increase in the long term borrowing over the year which will bring the current liquidity to a positive position.

As the borrowing increases, the pressures on the revenue budget for capital financing costs increases, being 8.4% of income by 2023. The Council has identified that this level is not sustainable and increasing borrowing beyond the planning horizon would impact on services. The general fund revenue budget forecasts over the medium term show that borrowing is expected to peak in 2022-23 and fall in 2023-24.

The Council monitors its financial position on a routine basis and is borrowing in line with its financial plans. We note that the Council's credit rating was rated by Moody's as Aa3 and stable in November 2018, with recognition of the Council's financial management detailed within Moody's assessment.

Financial sustainability (continued)

DRAFT

Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice.

Annually the Council has to set out its prudential indicators to provide a framework to work within to ensure that Council does not breach its prudential indicators as borrowing increases to fund capital investment.

The table below sets out the forecast prudential indicators over the medium term, showing the affordability gap narrowing over the medium term.

Prudential indicators	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Capital Financing Requirement	1,216	1,338	1,482	1,494	1,473	1,448
Operational Boundary for External Debt	1,230	1,352	1,496	1,508	1,487	1,462
Gross Borrowing	870	1,051	1,175	1,322	1,338	1,321
Gap	360	301	321	186	149	141

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Audit Scotland area of focus - Changing public landscape for financial management.

Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits. Scottish Government published an initial five year Medium term Financial Strategy in May 2018, which was refreshed in May 2019.

The Council does not obtain new financial powers directly as a result but may be impacted indirectly by subsequent delegated powers or changes in the external economic environment. The Local Government Finance (Scotland) Settlement 2018-19 includes the continued flexibility to increase Council Tax, with a cap of 4.79% for 2019-20. The Council has fully used this flexibility.

Other tax raising powers outlined in January 2019, (including tourist visitor levy, parking levy and non-domestic rates empty property relief) have not been reflected in the projected income in the General Fund revenue budget, however the Council will respond to Scottish Government consultation in respect of these and hopes to benefit from these over this period of the General Fund revenue budget.

Audit Scotland area of focus: EU withdrawal

The Council maintains a detailed and robust risk register of the risks that it considers could impact the Council and its services, as well as the wider economic environment of the City and surrounding area.

This risk register takes account of the following broad headings: workforce; capital projects; partner organisations; financial; operations; customer; place; governance; corporate landlord; and digital.

In addition to the internal risk assessment and mitigation work, the Council is a key participant in the Grampian Local Resilience Partnership, which maintains an EU Exit resilience checklist which incorporates the regional risks.

The Westminster Government and Scottish Government announced a guarantee that UK projects that are approved before the UK officially leaves the EU will receive the funding to which they were awarded. No additional specific guarantees have been received, but the Council considers that this guarantee means there is limited additional financial risk attached to the EU funding for ongoing projects.

We consider that the Council has worked effectively alongside its partners and internally to understand the risks that the EU withdrawal creates and continues to engage fully. The Council has risk assessment and mitigate risks where possible, and is working across the area region. The Council was appropriately prepared for exit on 29 March 2019, being the original date of departure from the EU.

Financial sustainability (continued)

DRAFT

Audit Scotland focus area: Key supplier dependency

All bodies are potentially exposed to the failure of a key supplier, in an operational and infrastructure context. For ACC we identified the following as key suppliers during 2018-19 and over the next year: the building contractor for TECA, the Energy from Waste Contractor; Waste Disposal contractors; and digital partners.

Through established procurement arrangements the Council carries out financial due diligence on prospective partners and key suppliers. For the key suppliers identified, risk assessment had taken place with regards to accepting the suppliers and the ongoing risk of failure. Following risk assessment, the Council has mitigation plans in place should key suppliers fail.

Financial due diligence includes requesting up to date financial statements where considered necessary and using suppliers that are included on framework contracts where sustainability checks are already performed. The Council notes that the risk to the Council extends beyond loss of the key supplier, including the risk of the loss of Council services, or the loss of data. To mitigate this, legal officers are involved to ensure that legal recourse is in place to ensure continuity.

We consider that the Council has arrangements in place to manage the key supplier dependency risk.

Our view – financial sustainability

A clear assessment of the 2019-20 savings needs has been identified and reported to Council.

The Council will continue to utilise reserves associated with the transformation programme which is designed to realise benefits and savings required over the period to 2024.

There remains a residual risk that in the medium to long term, transformation does not deliver the benefits and savings expected, or does not deliver them at the pace required to deliver a balanced budget without impacting services. However we consider that the Council is financial sustainable in the short term, with well monitored plans to ensure longer time financial balance.

Governance and transparency

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

Governance

The Council continues to enhance and refine its governance arrangements, with the objective of being awarded the CIPFA Governance Mark of Excellence by 31 March 2021.

In 2017-18 the Council made substantial changes to its governance arrangements following a wide ranging governance review. The changes support the delivery of the four phases of the transformation and the key achievements noted in the prior year Annual Audit Report were the approval of: a Scheme of Governance; a Bond Governance Protocol; a Risk Management Framework; and an ALEO Assurance Framework.

The Scheme of Governance that brings together the Council's constitutional documents is reviewed annually. At the 4 March 2019 meeting of the Council the revised Scheme of Governance was approved, with the key changes being:

- the disestablishment of the Strategic Transformation Committee, in recognition that transformation has become 'Business As Usual' for the Council;
- revisions to Committee Terms of Reference, Powers Delegated to Officers, Standing Orders and Financial Regulations;
- changes to the Procurement Regulations, including measures to provide additional scrutiny by the Head of Commercial and Procurement Services to help ensure Value for Money.

During the year the Council also revised its Governance Function, which constitutes an Assurance Team, Democracy Team, Legal Team and the Programme Management Office. The objective of the function is to support the strengthening of the governance framework and reinforce accountability and ownership of governance across the Council.

Alongside these governance arrangement enhancements the Council has developed and approved Guiding Principles within its Behavioural Framework.

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A focus on: The Guiding Principles

We care about our purpose, our city and our people

We take pride in what we do and work to make things better

One team, one council, one city

We trust each other and take responsibility

We value each other and recognise a job well done

Phases two to four of the transformation include the development of seven organisational capabilities, which are an evolution of the design principles of the TOM. The Council recognised that embedding these capabilities into the way that the Council operates requires a culture change, and it formed the Guiding Principles following engagement across the organisation.

The Guiding Principles are intended to: set out common understanding of what it means to work at and with Aberdeen City Council; guide how the Council interacts with customers, partners and each other; guides the approach to decision making, processes and policies; and ensure that all can challenge and support the way the Council operates.

To define the culture needed to deliver the organisational capabilities, officers engaged with over 800 individuals from across the Council, including members and trade union representatives. Options for principles and behaviours were formed and decided upon through an online survey, which generated over 1,000 responses.

Five Guiding Principles, including practical example behaviours, were formally approved on 4 March 2019.

Transformation can be ineffective when an organisation's culture does not change and respond a new way of working. Culture itself can be difficult to evolve if stakeholders cannot influence it. We consider that the Guiding Principles and the Behavioural Framework, together with the collaborative approach to their development, represent best practice will contribute significantly to the effectiveness of the required transformation.



Governance and transparency (continued)

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Scrutiny

There is a high degree of scrutiny and challenge exercised by officers and members. This scrutiny is facilitated through the revisions to the committee structure and terms of reference.

The Council's monitoring and challenge of ALEOs continues to be embedded within the ALEO assurance hub. The May 2018 Audit Scotland report *Councils' use of arm's length organisations* commented that the ALEO Assurance Hub has a clear focus on risk management, financial management and governance. [Annual Governance Statement](#)

The Annual Governance Statement within the Council's annual accounts sets out the Council's conclusion on the effectiveness of governance and the basis for that conclusion. It describes the sources of assurance to support the Council's compliance with the seven principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*. The Annual Governance Statement includes areas where there is future development in governance and where governance issues have been identified. It concludes that the Council's Code of Governance operates effectively.

We consider that the Annual Governance Statement shows an appropriate and accurate reflection of the Governance arrangements at the Council.

National Fraud Initiative (NFI)

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

The Council submitted received matches for investigation during January 2019, to identify potential frauds or errors, with a deadline of 30 September 2019.

We completed a questionnaire considering the Council's participation in NFI for submission by 30 June 2019, with a generally positive conclusion.

Standards of conduct for prevention and detection of fraud and error

The Council has a range of procedures for preventing and detecting fraud and irregularity including: a whistleblowing policy; fraud, bribery and bribery policy; and codes of conduct for members and officers. We assessed these to confirm that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We consider that the Council has appropriate arrangements for the prevention and detection of bribery and corruption.

Risk management

The Council's Risk Management Framework was updated and approved in March 2018, incorporating the Council's approach to risk management, monitoring, reporting and risk appetite. The framework is being refreshed during 2019-20.

The Corporate Risk Register is reviewed by the CMT on a monthly basis, with Cluster Risk Registers maintained to manage operational risks. The Council has commenced an assurance mapping programme, to identify control gaps or control duplication. With the revised governance structure in place, the programme should be taken to completion.

Local Area Network ('LAN')

A Local Scrutiny Plan ('LSP') was presented to the June 2018 ARSC and included no additional scrutiny by external audit in 2018-19. The LSP is based on a shared risk assessment undertaken by the LAN, comprising representatives from scrutiny bodies which engage with the Council.

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group ('SSG'). During 2018, the SSG reviewed the effectiveness of national scrutiny coordination and the Shared Risk Assessment process. As a result, a number of changes were made, the most notable being no requirement for LANs to produce LSPs. The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year, rather than a specific one-off approach..



Governance and transparency (continued)

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Internal audit

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.

Every local authority internal audit function must be externally assessed against the PSIAS once every five years. In 2017 we reviewed the internal audit function, covering the PSIAS requirements as well as comparisons to best practice for an entity with debt listed on the London Stock Exchange. Where recommendations for improvement were identified and agreed, Internal Audit brought proposed changes for approval by ARSC members.

We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit’s annual opinion confirmed, “that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s framework of governance, risk management and control in the year to 31 March 2019.”

Internal audit reports are not graded, although the Health and Safety Audit was identified by officers as requiring specific focus to ensure that the agreed actions are implemented.

Open internal audit recommendations are monitored by officers and the remediation actions reviewed by Internal Audit prior to closure. Part way through 2018-19 several actions were overdue, although through CMT focus the outstanding actions as at 31 March 2019 were low in number, at 14 compared to 45 as at 31 March 2018.

Transparency

Transparency continues to be an important aspect of good governance and is expected by stakeholders. The Council makes committee meeting agendas and minutes available online and reports are publicly available in advance of meetings. Full Council meetings are also webcast.

Having attended various committee meetings, we observed appropriate debate over any proposed exempt specific items of business from publication. These examples demonstrated a commitment to conduct business as transparently as possible with senior officers providing legal guidance and their rationale for items to be taken in private business. We recognise that some reports should be considered in private to help ensure that the Council delivers Best Value and, in some cases, the Council must by law consider matters in private.

For 2018-19, the Council’s committees prepared and approved annual committee effectiveness reports. Each committee’s report sets out: delivery against the committee’s terms of reference; officer and member attendance; a graphical summary of how committee reports align to LOIP categories; a summary of the number of committee decisions including those considered as exempt/confidential; civic engagement; and a section with a forward look to the next year’s focus.

Committee effectiveness reports are good practice, but we note that the consideration of outcomes, transparency and the forward focus are best practice content.

The Council also demonstrates transparency by:

- participating in the Local Government Benchmarking Framework (“LGBF”) and providing access via its website;
- publishing Statutory Performance Indicators (‘SPIs’); and
- reporting regularly on delivery against the LOIP.

We consider that the Council conducts its business in an appropriately transparent manner.



Governance and transparency (continued)

DRAFT

Audit Scotland area of focus - Care income, financial assessments and financial guardianship

The experience of a number of local government audits indicates there may be issues with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship. In some cases where the responsibilities for financial assessments on those receiving care has transferred from social care to finance has revealed issues with backlogs of financial assessments and under-recovery of care charges over many years.

The Council is responsible for collection of care income and processing financial assessments. Backlogs currently exist; as at 31 May 2019, 114 non-residential assessments were outstanding dating back to February 2019, and 563 residential assessments were in progress. The Council has allocated additional resource with the aim of clearing the backlog by 31 December 2019.

The Council/IJB approved two planned internal audits in the area, being in respect of financial assessments (February 2018) and Non-Residential Care Charging Policy (March 2019). Recommendations for improvement in processes were agreed in respect of both audits. The Council and the IJB also commenced a lean Six Sigma continuous improvement project in February 2019 which seeks to simplify and shorten the financial assessments process.

The Council has an established process in respect of financial guardianship.

Leadership

We specifically considered the Best Value area of Leadership during 2017-18 and concluded that Aberdeen City Council exhibits strong member and officer leadership. We have concluded likewise for 2018-19.

During 2018-19 the vacant CMT positions were filled, and the Behavioural Framework was approved. In addition a Leadership Forum was formed, currently comprising 358 members; being "leaders" from across the Council. A Capability Framework is due for consideration and approval in 2019-20.

The Leadership Forum's aims are to:

- Keep the Council's leaders informed of key developments.
- Provide a space for them to get actively involved in what is happening and to involve their teams.
- Facilitate collaboration, sharing and problem solving for leaders across the Council.

The Leadership Forum is an everyday network and also to date three events have been held, with up to 170 members attending. The events were an opportunity for members to engage and influence on topics such as: creating a culture to enable development of the organisational capabilities; budget update; the Guiding Principles; and the new approach to performance review and development.

We consider that the Leadership Forum is an excellent example of engaging senior staff members, to develop them and to make use of their skills to deliver transformational change at the Council.



Our view – governance and transparency

The Council has continued to enhance its governance framework and is working to secure the CIPFA Governance Mark of Excellence. It exhibits strong and effective governance and has engaged with stakeholders as it developed its Guiding Principles to support the culture change which is associated with transformation.

Members robustly challenge and scrutinise management with a clear focus on the communities and citizens they represent, in respect of governance, process and matters presented for decision.

We consider that the Council operates in an appropriately transparent manner.

Best Value and Value for Money

DRAFT

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

To consider how effectively the Council demonstrates Best Value in its delivery of services we consider the audit findings across the four audit dimensions. This section includes our conclusions relating to the audit dimension of Value for Money which contribute the delivery of Best Value.

Best Value is assessed over the five-year audit appointment as part of our annual audit work. A Best Value Assurance Report ('BVAR') for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Aberdeen City is planned for the last year of the five year programme (2020-21).

In 2018-19 our Best Value audit work focussed on the Council's arrangements for demonstrating Best Value in Performance, Improvement and Outcomes.

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Best Value focus area: Performance, Improvement and Outcomes

Performance Management Framework

A revised Performance Management Framework ('PMF') was approved at the Strategic Commissioning Committee in March 2019. The PMF supports the seven operational capabilities as referred to on page 29, with performance reported against four elements of Customer, Processes, Finances and Controls, and Staff.

Performance is monitored and reported at a cluster level using performance scorecards. An aggregation of key performance statistics is provided to ECMT, the Staff Governance Committee, the City Growth and Resources Committee and the Operational Delivery Committee.



Through the digital and data investment that the Council has made, real-time interactive dashboards have been formed. These provide access to operational and financial data from across all aspects of the Council's activities and services. Officers provided External Audit with a demonstration of the data and reporting system, which uses the PowerBI platform. Whilst the system is being further developed during 2019-20, it is clear that it represents a step-change in the accessibility of data and in the ability to interrogate exceptions to drive change.

Through access to real-time information, the Council will move away from formal reporting of historical data for the purposes of operational management, with continuous monitoring by officers now taking place. Similarly the intention is that elected members will have real time information to inform decision making.

Public Performance Reporting

A key element of the PMF is in respect of Public Performance Reporting ('PPR'), being a statutory duty of every council. The PMF sets out the current PPR mechanisms and further notes that the "digital revolution" will provide customers and other stakeholders with real time data and information about services. It notes that the Council is developing its PPR by exploiting its new data analysis and reporting capabilities.



The Council's website includes a Strategy, Performance and Statistics section, through which users can access:

- the Aberdeen City Local Development Plan and the City Centre Masterplan;
- financial and procurement information;
- SPIs and a link to the LGBF;
- the Annual Complaints Report;
- extensive information about equalities and diversity; and
- statistical information.

The section also includes a link to the Community Planning Partnership ('CPP') website through which the LOIP and Annual Improvement Outcome Reports are available.

External Audit reviewed the Strategy, Performance and Statistics section and identified that performance information is up to date and relevant. The information is generally provided by annual reports and links to information sources, as is usual practice in Local Government, however the intended transformation of PPR through use of the interactive dashboard will greatly enhance the usability of the information and support in identifying trends.



Best Value and Value for Money (continued)

Best Value focus area: Performance, Improvement and Outcomes

SPIs

The Accounts Commission prescribed two SPIs for the financial years from 2016-17 to 2018-19:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value.
- SPI 2: reporting of performance information as required by the LGBF.

The Council publishes the information for both SPIs up to 2017-18, with the 2018-19 information being prepared at the date of this report and reflecting the earlier annual accounts timetable of the Council.

Outcomes

The LOIP 2016-26 sets out the CPP's vision for Aberdeen City and identifies 15 stretch outcomes across the areas of Economy, People and Place. Under the LOIP, the Council and the community planning partners have committed to delivering four outcomes for the people of Aberdeen; namely prosperous economy, prosperous people, prosperous place and enabling technology. Delivering these outcomes was the basis for the development of the TOM.

The Council and the CPP developed their approach to supporting improved outcomes, including holding a Taking Stock Community Planning Conference in September 2018. The conference included participation from stakeholders across the City and provided a set of priorities for the CPP and refreshed LOIP. In preparation for the conference, a substantial document repository was provided to attendees, including evidence matrices, improvement project reports, locality annual reports and population needs assessment.

The current Council Delivery Plan was approved in March 2019 and establishes strategic commissioning intentions to support delivery of LOIP outcomes.

Improvement

The Council and the CPP adopted the Scottish Government Model for Improvement in order to support a systematic approach to identifying, planning and delivering improvements. A training and development programme, including regular workshop based 'bootcamps', support users in its implementation.

Where there is evidence of success the Council and the CPP seek to replicate and enhance the scale of improvement or stop activities which are not demonstrating improvement. There is a positive leadership culture which encourages decisions to stop activities without seeing this as failure.

Improvement reporting

Regular improvement tracking and monitoring happens throughout the year at an appropriate level. The Council's Service Improvement Plans include the LGBF measures and are routinely reported to members through the Council's established committee structures.

Each year an Annual Outcomes Improvement Report ('AOIR') and an Annual Public Performance Summary are published by the CPP.

As set out in last year's Annual Audit Report, the AOIR includes:

- clear improvement objectives, by year, with comparison to actual performance;
- red/amber/green status tracking in respect of each measureable indicator which underpins an improvement project objective;
- focus on outcome measures (rather than inputs);
- details of ongoing improvement projects;
- case studies; and
- priority next steps for the year ahead.

Where improvements are required, the Council seeks service responses in respect of relevant actions.



Best Value and Value for Money (continued)

Best Value focus area: Performance, Improvement and Outcomes

Progress in improving outcomes

The AOIR includes status indicators for the partnership outcome measures. The 2017-18 AOIR shows that for 56 improvement measures the outcome exceeds the CPA's 2017-18 aim, demonstrating improvement on the 2015-16 baseline position. 12 improvement measures show that progress is nearly at the 2017-17 aim, with 18 reporting insufficient progress. Data was not available for the remaining 39 improvement measures.

Engagement with customers and stakeholders

In addition to Public Performance Reporting and the CPP engagement noted on the previous page, the Council engages with customers and stakeholders in a variety of ways:

- Citizens Space: online portal for consultations, through which c.14,000 responses were received in the 18 months to 31 May 2018.
- City Voice: the Citizens Panel managed by the Council on behalf of the CPP.
- The CPP's Civic Council: bringing together Community Councils, Communities of Interest and other Community Groups.
- Community Council Forum: supporting community councils across Aberdeen.
- Community Engagement Group: bringing together several group from across the Community Planning Aberdeen ('CPA') partnership.

In January 2019 the Strategic Commissioning Committee considered a report which set out the findings of a review of the Council's approach to Customer and Community Engagement. Key developments which are being taken forward are: a better link between Service Delivery Plans and CPA engagement; monitoring of customer and community engagement through the new Performance Management Framework; and findings from the review are to be embedded into the Council's transformation project for civic leadership.

In the 2017-18 Annual Audit Report we raised a "minor" graded recommendation in respect of monitoring the success of engagement, in a similar way to the Council's existing approach in respect of the Aberdeen City Voice. The January 2019 review report actions addresses the recommendation.

Following the Public Pound

Appointed 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 have previously considered management's processes to comply with the FtPP Code through its local code of practice which applies the FtPP Code in the local context of the Council's interactions with its Arm's Length External Organisations ('ALEOs').

Effective monitoring and scrutiny of ALEOs has continued to be enabled through the ALEO assurance hub, which provides officers and elected members with regular reporting of all ALEOs as set out on page 30.

Options appraisal

The Council has a business case template for use as part of the project management toolkit. This includes the requirement to undertake an options appraisal and all committee reports seeking decisions are submitted with the implications of recommended option. These implications include the impact of decisions on LOIP themes.

Four control boards operate to oversee and act as gateways for business cases and options appraisal. Having considered the terms of reference and business case templates, we consider that the arrangements for options appraisal are robust and appropriate.

With significant change underway at the Council, in the form of the Transformation Programme, there is significant focus on considering the benefit of change and the outcomes which will be delivered. For example, each project within the "transformation blueprint" is required to prepare a project canvas to set out the basis for the project and the options to be progressed. The projects are monitored and managed through the Transformation Management Group.

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Best Value and Value for Money (continued)

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Our view – value for money

Building upon the clear vision and objectives which the leadership has established in the LOIP, improvement actions, responsibility and monitoring arrangements are well established to support delivery. The Council has engaged stakeholders in its improvement journey, with a clear focus on outcomes.

There is a robust Performance Management Framework which ensures that Council performance is monitored and scrutinised. The investment in a data dashboard will greatly enhance the accessibility and usefulness of information; to enable members, officers and stakeholders to understand the Council's service delivery performance. Existing progress reporting is transparent and includes targets, trend analysis and is provided in full detail and summary level to enhance stakeholder engagement.

Public Performance Reporting is up to date and complete, although we welcome the planned interactive and real-time reporting which will be enabled by the Council's digital investment.








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Appendices










Required communications with the Audit, Risk and Scrutiny Committee







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Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2019.
Adjusted audit differences	 There was one adjusted audit differences with a deficit reduction impact of £11.55 million. See appendix three.
Unadjusted audit differences	 The aggregated deficit impact of unadjusted audit differences would be £1.76 million. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See appendix four.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 None.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 No material inconsistencies were identified related to other information in the annual accounts. The Management Commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	 The key audit matters (summarised on pages seven to 11) arising from the audit were discussed, or subject to correspondence, with management.

Additional report relating to EU Public Interest Entities

Type	Response
Our declaration of independence	 No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Key audit partner(s)	 We have identified each key audit partner at page three in our Audit Strategy report dated 1 February 2019.
Independence of external experts engaged by KPMG and non-KPMG auditors	 We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our group audit.
Communications with audit committee and management	 We have described the nature, frequency and extent of communication with the ARSC and management at pages 26 and 27 in our Audit Strategy report dated 1 February 2019.
Scope and timing of the audit	 We have described the scope and timing of the audit at pages 26 and 29 in our Audit Strategy report dated 1 February 2019
Audit methodology	 Our audit methodology is described at page six in this report.
Valuation methods	 On page nine (and in the accounting policies of the annual accounts), we report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	 There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	 No matters to report. All requested explanations and documents were provided by management.

Type	Response
Materiality	 Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page six in our Audit Strategy report dated 1 February 2019
Non-compliance with laws and regulation or articles of association	 No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	 There are no significant deficiencies to report in this report or our report dated 1 February 2019.
Significant difficulties	 No significant difficulties were encountered during the audit. The significant matters (pages seven to 12) arising from the audit were discussed, or subject to correspondence, with management. In our professional judgment, no matters arose from the audit that were significant to the oversight of the financial reporting process.
Non-KPMG component auditors	 We described the work of non-KPMG component auditors at pages, 5, 14 and 29 in our Audit Strategy report dated 1 February 2019.
Management's approach to consolidation	 We report on management's approach to consolidation on page 18. It is consistent with the Code. The consolidated financial statements include all material subsidiaries.
Independence – Relationships and audit fees	 No relationships have been identified between the firm, and the entity that, in our professional judgment, may reasonably be thought to bear on independence. We received £201,610 of fees during the period covered by the annual accounts for audit services provided by the firm and KPMG member firms to the entity and components controlled by the entity. There were no non-audit fees receivable.

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Auditor independence

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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

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.

Total fees charged by us for the period ended 31 March 2019 can be analysed as follows (there are no future services - contracted or with written proposal submitted, with the exception of continuing audit services).

Total fees charged by us for the period ending 31 March 2019 can be analysed as follows:	2018-19 continuing (exc VAT) £	2017-18 (exc VAT) £
Audit of the Council’s financial statements	196,859	193,110
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	8,600	8,500
Total audit services	205,459	201,610
Non-audit services	-	-
Total	205,459	201,610

Auditor independence

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The ratio of non-audit fees to audit fees for the year was 0 : 1. We do not consider that the total non-audit fees create a self-interest threat.

Joint ventures

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board.

We are also appointed as external auditor of Aberdeen Sports Village Limited, a subsidiary of the Council, this is not an appointment of the Accounts Commission.

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.

Supplier relationship

KPMG LLP paid £[219,186] to the Council in the year ended 31 March 2019, in relation to rent, rates and services. This is not material to the Council or to KPMG LLP and we note that it is at a commercial "arm's-length" rate.

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

Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2018-19 audit procedures.

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Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
1. Lochside Academy initial recognition (see page 12) Dr Impairment charge Cr PPP capital liability		11,550	11,550	
Being the Lochside Academy which is a PPP asset and valued at £34.1 million as at 31 March 2019 on a Depreciated Replacement Cost basis, as required by the RICS Red Book. The construction cost was £45.6 million and should be recorded as the PPP capital liability and the initial recognition of the asset. An impairment charge is therefore required to reflect the new valuation – this has no impact on usable reserves as it relates to a capital item.				

In addition to the audit adjustments, we identified disclosures within the annual accounts which required amendment. The most significant areas were in respect of: balances due to/from the Integration Joint Board, Classification of Trading Operations, and contingent liabilities in relation to pensions to reflect information available after the unaudited accounts were issued.

Audit differences - Unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2018-19 audit procedures. These adjustments are not considered material.

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Nature of unadjusted difference	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
1. Debit balance within creditors				
Dr Debtors Cr Creditors	1,404	1,404		
Being a rent prepayment incorrectly recognised as a debit within creditors, reclassified.				
2. Harlow Academy revaluation (see page 9)				
Dr Impairment charge (CIES) Cr Land		1,760	1,760	
Being an input error in respect of the area of land for Harlow Academy used to calculate its value for the year end revaluation.				
TOTAL	1,404	3,164	1,760	-

Prior year recommendations

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 2017-18 and 2016-17 audits and their current status. We provide a status update below.

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Year	Number of recommendations	Implemented	In progress	Not yet due
2017-18	8	4	4	-
2016-17	3	2	1	-

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2018-19
1. Regular user access appropriateness review <i>Audit dimensions: governance and transparency</i>		Grade one
<p>There is no regular review performed of user access to determine if the access is appropriate for active business users on the AIRS and Infosmart application, database and operating system (including privileged user access).</p> <p>User access is reviewed for the Oracle e-Financials and the Orbis Northgate applications, but the review does not establish if the user access assigned is appropriate for an individual's current role.</p> <p>Risk:</p> <p>Where user access is not reviewed on a regular basis, the risk is increased that individuals may gain or retain unauthorised access rights that are not needed for their business role. This can lead to controls and segregation of duties being by-passed, leading to erroneous or fraudulent transactions being processed.</p>	<ul style="list-style-type: none"> — Management should perform a periodic review of user access assigned to ensure that this is appropriate at the application, database and operating system level. — This should include an assessment of user access across the production, development and test environments to ensure appropriate segregation of duties exist. — Where inappropriate access is identified, this should be investigated and removed in a timely manner. — The review should be formal, documented and retained as evidence for audit purposes. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners.</p> <p>Status update 2018-19: In progress.</p> <p>Whilst an email was circulated to all system owners within the Council advising them to remove any users who no longer required access to the system, this did not constitute a formal, documented and evidenced review suitable for audit purposes. We further note that this review appeared to be a one-off exercise, as opposed to periodic business-as-usual activity (e.g. quarterly user recertification).</p> <p>We note that the review did not consider the level of user access across environments to ensure appropriate segregation of duties between these environments.</p> <p>As the review was not formal in nature, there was no evidence of inappropriate access being further investigated and removed in a timely manner.</p> <p>Management response 2018-19</p> <p>See page 48.</p>

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Prior year recommendations (continued) 2017-18

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Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2018-19
<p>2. Assignment of highly privileged access and monitoring of access</p> <p><i>Audit dimensions: governance and transparency</i></p>		<p>Grade one</p>
<p>Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Oracle e-Financials, Orbis Northgate and Airs), required to perform user administration activities (e.g. assigning and changing user access rights), system development and configuration, and to ensure ongoing support and maintenance activities.</p> <p>We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year . The weaknesses in the access assigned includes:</p> <ul style="list-style-type: none"> — The privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and — The Oracle e-Financials and Orbis Northgate system administrators within the business can make direct changes to the data within the underlying database and bypass system controls (not logged); and — A shared system administrator account is used for Airs by two members of business staff (not logged). — Risk: - Where privileged user access is not robustly controlled the risk is increased that: <ul style="list-style-type: none"> — unauthorised access is gained to process erroneous or fraudulent transactions, make changes to data, and system settings; — unauthorised changes are not detected and appropriate action taken; — IT / operational system downtime is experienced; and — the system does not function as intended by management. 	<p>Management should ensure that:</p> <ul style="list-style-type: none"> — A formal, documented and agreed policy is established that guides the Council's management of highly privileged access. — The sharing of the user accounts is investigated, risk assessed and the root cause is understood. — User accounts are only used by the approved and appropriate persons. — Each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained. — The feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate. — The logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>Whilst a formal policy has been established to manage the Council's use of highly privileged access (as part of the overarching ICT Access Control Policy), there is scope for improvement in the day-to-day management of how these accounts are used.</p> <p>We note that there is currently no requirement to raise an incident or change ticket for each use of a privileged account, and we were not provided with any evidence of root cause analysis or restriction of privileged account sharing for AIRS.</p> <p>We note that audit logging is enabled for Orbis Northgate, eFinancials and Infosmart and the logs are securely stored in a segregated area , but regular reviews of these logs are not currently carried out.</p> <p>Management response 2018-19</p> <p>See page 48.</p>

Prior year recommendations (continued) 2017-18

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Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2018-19
Grade two		
<p>3. Changes to IT systems</p> <p><i>Audit dimensions: governance and transparency</i></p> <p>There is no system generated log of changes to show the full population of changes to the Council's IT systems (Oracle e-Financials, Orbis Northgate and AIRS). for example changes to underlying system code or configuration. Management is therefore unable to review the changes made to the system to ensure these are appropriately approved and tested.</p> <p>It is also noted that the system administrators for Oracle e-Financials and Orbis Northgate have access to the production, test and development environments.</p> <p>Risk:</p> <p>Where a system generated log of changes is not available and reviewed, the risk is increased that changes are made to the IT systems that do not function as intended.</p> <p>The risk is further increased where:</p> <ul style="list-style-type: none"> — user access is not reviewed on a periodic basis (as identified by internal audit in the Finance Systems review); — passwords to highly privileged user accounts are shared (finding 2); and — access to the production, test and development IT system environments are not segregated (this finding). 	<p>Management should ensure that:</p> <ul style="list-style-type: none"> — Access to the production, test and development IT system environments are appropriately segregated, and any exception is risk assessed and approved. — The feasibility of implementing a system generated change log for the application, database, and operating system is considered. Further, a sample of higher risk changes should be reviewed by an independent person on a periodic basis to identify if changes have been approved and tested. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>We note that there is no system generated changed log covering changes to key financial systems, and consequently no review of such changes being adequately approved and tested prior to release. Major changes to IT systems do come through the ACC Change Advisory Board, but cannot conclude that this covers all changes to IT systems.</p> <p>We were not made aware of risk assessment and / or approval relating to system administrators having access to multiple environments.</p> <p>Management response 2018-19</p> <p>See page 49.</p>

Prior year recommendations (continued) 2017-18

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Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2018-19
4. Password parameters configuration <i>Audit dimensions: governance and transparency</i>		Grade two
<p>The Council has established a range of information security policies and procedures which set out the minimum password parameters required.</p> <p>Our review identified the following which is not in line with the Council's information security policies and procedures:</p> <ul style="list-style-type: none"> — The Infosmart application does not have any password parameters assigned for the system administrator's accounts (the Council specifies these should be enforced). — The Airs application system administrator password has never changed (the Council specify these should be changed). — The Northgate application minimum password length is six characters (the Council specify this should be eight characters). <p>Risk:</p> <p>Where the passwords have weak configurations or are not compliant with the security policies approved by the Council, there is a risk that unauthorised users can have access to the applications. This could lead to system downtime, data not processed completely and accurately, or system changes that do not function as intended.</p>	<ul style="list-style-type: none"> — Management should review the password parameters and ensure that they are appropriate at the application, database and operating system level. — Where password parameters can not be implemented in line with minimum requirements, this should be risk assessed on a periodic basis and formally approved by the business and IT (e.g. IT security function). 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>The minimum password length for the Orbis Northgate NDR application has been updated to meet the ACC Password Standard .</p> <p>We further note that the Infosmart application uses Single Sign On, and therefore does not meet the enhanced requirements for administrator accounts, and we have not been provided with evidence of risk assessment or approval of this by ACC.</p> <p>We were not provided with evidence to suggest that the AIRS system administrator password has been changed since last year's audit.</p> <p>Management response 2018-19</p> <p>See page 49.</p>

Prior year recommendations (continued) 2017-18

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The 2018-19 management response to the first four prior year recommendations are provided on this page and the next page.

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<p>1. Regular user access appropriateness review</p>	<p>Grade One</p>
<p>Proposed action: Services will implement a documented and evidenced review process against user access related to their systems with ICT assistance where appropriate. AIRS will not have this functionality. With continued development of our Identity and Access Management (IDAM) platform we would aim to bring in these systems into IDAM over time. EFinancials - To implement. Orbis - all users are required to confirm their ongoing need for access and levels of access required - including providing reason for access - on a rolling annual basis. Essentially, an Access database recording all users of Revenues and Benefits system (Orbis, Academy and URB) which incorporates a diary function prompting service to issue users with their annual system access review. A copy of the review form and screenshots of the database to illustrate functionality/control in place is provided to External Audit. Infosmart - Will implement a process similar to Orbis. User access to Development, Test and Live environments is segregated in that they are on different servers, different log on paths and use different usernames and passwords. These measures go towards mitigating potential risk. Many of the same users that use live environments also have to do testing and the test systems are also used to do training. We believe this segregation is adequate and meets the requirement. Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart. Implementation date: 31 August 2019</p>	
<p>2. Assignment of highly privileged access and monitoring of access</p>	<p>Grade One</p>
<p>Proposed action: It is impractical to raise a change each time an elevated account is used. The AIRS 'system' is an Access Database and can only have one password which is restricted to two users. For EFinancials, Orbis and Infosmart systems, ICT will, where possible, share activity logs with the service monthly so they can ratify admin access and activity against their own record of change. EFinancials - a record of changes made to the database and also any fixes applied to the application are being kept. These have been reviewed by the service. This record is provided to External Audit and we believe this meets the requirement. Orbis - already keeps an audited record of all log-ins, plus a specific additional level of audit to record all changes to Security Permissions however logs are not regularly reviewed. The Service concerned will introduce a review process. We believe this meets the requirement. Infosmart - Paperwork backs up any change and the service will implement quarterly spot check to validate requested amendments were processed appropriately. Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart. Implementation date: 31 July 2019</p>	

Prior year recommendations (continued) 2017-18

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The 2018-19 management response to the first four prior year recommendations are provided on this page and the previous page.

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<p>3. Changes to IT systems</p>	<p>Grade Two</p>
<p>Proposed action: Low level changes would not come through the ACC ICT Change Board. Medium to high changes do, in line with ACCs Change Control Policy. The Digital and Technology service will investigate systems for use of automatic change logs. EFinancials - a record of changes made to the database and also any fixes applied to the application are being kept. These have been reviewed by the service. This record is provided to External Audit and we believe this meets the requirement. Orbis - will be implemented with immediate effect. Infosmart - will discuss with other service to establish what record they keep and a similar process will be put in place.</p> <p>Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart. Implementation date: 31 July 2019</p>	
<p>4. Password parameters configuration</p>	<p>Grade Two</p>
<p>Proposed action: Infosmart is using single sign on which uses AD accounts which force password length and complexity for standard accounts. Admins log in directly using the complexity rules of the system. Digital and Technology will investigate the rules to see if they can force passwords to match the password policy. If it is not able to, all admin users will be pointed to the policy and asked to confirm their passwords meet the standard. AIRS password has been changed and with the system owner confirming this to IT by Email as evidence. The services consider that this action is met.</p> <p>Responsible officer: Service System Owners in conjunction with IT Implementation date: 31 August 2019</p>	

Prior year recommendations (continued)

2017-18

DRAFT

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2018-19
5. Managing complex legal agreements <i>Audit dimensions: financial management</i>		Grade two
<p>The Council is required, by part of the legal agreements surrounding Marischal Square, to submit invoices in respect of estimated income due from the base void account within 10 days of each quarter end. This requirement had not been billed at the time of testing to support a material income accrual (£2.9 million). We understand that a process for regular claims in respect of the account is being developed.</p> <p>Risk:</p> <p>The Council may breach the terms of its agreements and be unable to collect money it is due, or suffer a loss of interest due to delays in receipt.</p>	<p>It is recommended that a suitably senior officer is assigned responsibility for managing Council, and monitoring third party compliance, with complex legal agreements including:</p> <ul style="list-style-type: none"> - Marischal Square; and - Marriot Hotel. <p>This should include use of calendar reminders to ensure compliance with key deadlines.</p>	<p>Original response: Agreed</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Chief Officer - Finance</p> <p>Status update 2018-19: Complete.</p> <p>No exceptions identified from audit testing in 2018-19.</p>
6. Faster accounts close – cut off review <i>Audit dimensions: financial management</i>		Grade three
<p>Management undertook an exercise to require officers to consider all invoices between 19 March and 23 May and consider whether they had been or should be accrued. While good practice, more efficient methods are possible and the existing approach was not relied upon by us, due to difficulty in confirming completeness of the invoices considered by officers.</p> <p>A sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.</p> <p>Risk:</p> <p>The Council may be inefficient in the use of resources, delay preparation of the annual accounts and impact adversely on officer capacity around the year end.</p>	<p>It is recommended a sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.</p>	<p>Original response: In line with normal practice, a review and lessons learnt session will be held to consider improvement for future years. This recommendation will be considered through that process.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Finance Operations Manager</p> <p>Status update 2018-19: Complete</p> <p>We consider that the approach to expenditure cut-off to be appropriate.</p>

Prior year recommendations (continued)

2017-18

DRAFT

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2018-19
7. Charity investments <i>Audit dimensions: financial management</i>		Grade three
<p>Two investments, with a combined value as at 31 March 2017 of £104,755 were recorded as disposed during 2017-18, with no proceeds receivable. We understand that the Council was unable to obtain confirmation that these investments were still held, with records relating to their transfer to Barclays who have confirmed that the account was closed in 2012.</p>	<p>It is recommended that management continues to trace the balances recorded as disposals through discussion with Barclays.</p>	<p>Original response: Agreed Implementation date: 31 August 2018 Responsible officer: Finance Operations Manager Status update 2018-19: Complete. No exceptions identified in 2018-19.</p>
8. Citizen engagement in budget setting <i>Audit dimensions: financial management and financial sustainability</i>		Grade three
<p>A key principle for community planning is to ensure that people and communities are genuinely involved in the decisions made by public services which affect them.</p> <p>The Council's Engagement, Participation and Empowerment Strategy sets out an ambition to go significantly beyond the requirements of the Community Empowerment (Scotland) Act 2010.</p> <p>Broad stakeholder engagement in determining priorities is undertaken through the consultation hub, Aberdeen City Voice, UDECIDE participatory budgeting and community planning arrangements associated with the LOIP. This is good practice and informs budget setting which is aligned with the LOIP providing an integrated approach. Citizen engagement during budget setting is a key opportunity for engagement and participation. It also provides a basis for informed decision making by Councillors.</p> <p>However, the Council did not undertake citizen consultation during the budget setting process (when the relative value placed on services is important). This increases the risk that the Council's budget decisions are not aligned with stakeholder views and limits achievement of the aims of the Engagement, Participation and Empowerment Strategy.</p>	<p>At its June 2018 meeting, the Council's Strategic Commissioning Committee received a report on customer and citizen engagement and instructed that officers undertake an audit and review of existing methods and activity of engagement and report back to the Committee.</p> <p>It is recommended that, as part of that report, the Council considers best practice examples in respect of citizen consultation as part of the annual budget setting exercise. This should include:</p> <ul style="list-style-type: none"> - Provision of information on budget challenges - A request for stakeholder input in respect of budget proposals; - A report, prepared for Council summarising feedback received in respect of the consultation. <p>Best practice would include monitoring the success of engagement (in a similar way to the Council's existing approach in respect of the Aberdeen City Voice).</p>	<p>Original response: Agreed. Implementation date: November 2018 Responsible officer: Chief Officer (Business Intelligence and Performance Management) Status update 2018-19: Complete.</p> <p>In January 2019 the Strategic Commissioning Committee considered a report which set out the findings of a review of the Council's approach to Customer and Community Engagement, incorporating examples of effective citizen engagement.</p>

Prior year recommendations (continued) 2016-17

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Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2018-19
1. Complex accounting treatments <i>Audit dimensions: 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>Status update 2017-18: In progress.</p> <p>While documentation was enhanced in respect of some areas, including bond accounting and preparation of a technical analysis in respect of lease classification of Marischal Square, there is scope for further improvement.</p>	<p>Responsible officer: Senior Accountant.</p> <p>Status update 2018-19: In progress.</p> <p>There is evidence of review of complex areas of accounting, generally without exceptions being identified. However, a material misstatement was identified during the audit in respect of accounting for Lochside Academy. It is recommended that for material complex arrangements, an accounting paper is prepared by Finance and is subject to senior officer review.</p>
2. Debtor provisioning <i>Audit dimensions: financial management</i>		Grade three
<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 debts 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>Status update 2017-18: In progress.</p> <p>Management implemented a revised approach to calculating the provision for general bad debts which is more sophisticated than in previous years.</p> <p>The approach to calculating the provision for council tax bad debts has yet to be revised.</p>	<p>Responsible officer: Senior Accountant.</p> <p>Status update 2018-19: Complete.</p> <p>The approach to calculating the council tax provision has been reviewed by the Council in the year and consequently simplified.</p>

Prior year recommendations (continued) 2016-17

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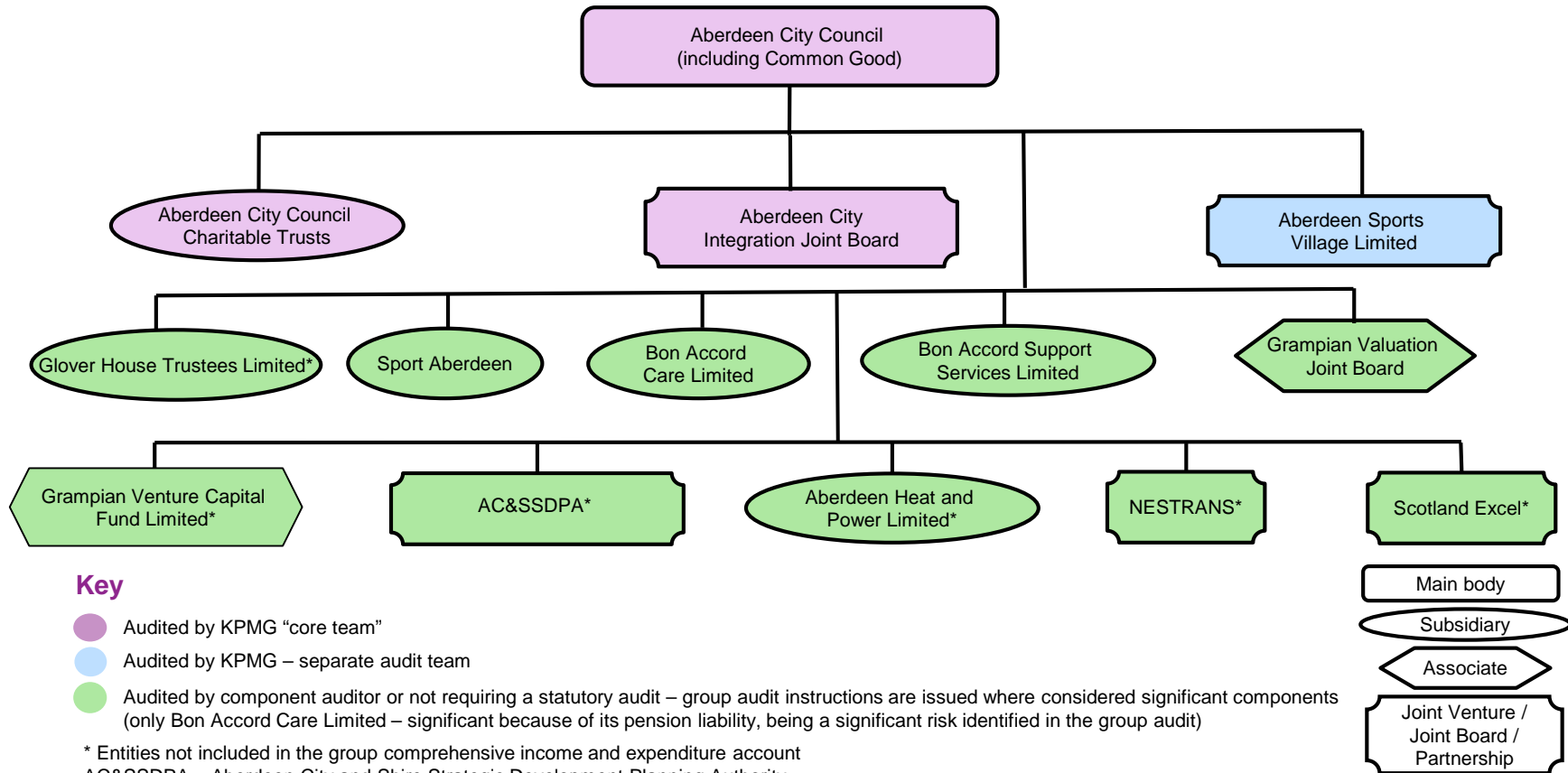
Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2018-19
<p>3. National Fraud Initiative (“NFI”) <i>Audit dimensions: governance and transparency</i></p>		<p>Grade three</p>
<p>After the identification of frauds during the NFI process, the matching system does not allow the Council to monitor recovery. The Council does not have a mechanisms 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>Status update 2017-18: Not yet due</p>	<p>Original response: Agreed</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> <p>Status update 2018-19: In progress.</p> <p>Academy (the benefits system) does not allow a marker to be recorded on cases where a NFI overpayment has been identified meaning a system report cannot be obtained. It was our aim to take this output and import this into the debt recovery system which would facilitate us being able to provide up to date recovery figures.</p> <p>Keeping manual records would be time consuming and not an effective use of resources. Representations will be made to our software provider to try to accommodate the creating of an additional field to allow this to be reviewed again, however, this will depend whether there is an additional charge.</p>

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Group financial statements

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Appendix six

Grant claims and WGA return

We set out below the “other reporting” responsibilities of our audit appointment. We will update the ARSC at the September meeting should there be any exceptions arising from the testing.

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RETURN	DESCRIPTION	STATUS
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.	Report due 28 September 2019.
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.	Report due 6 October 2019.
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 benefits 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.	Report due 29 November 2019.
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.	Report due 31 July 2019.

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Appointed auditor's responsibilities

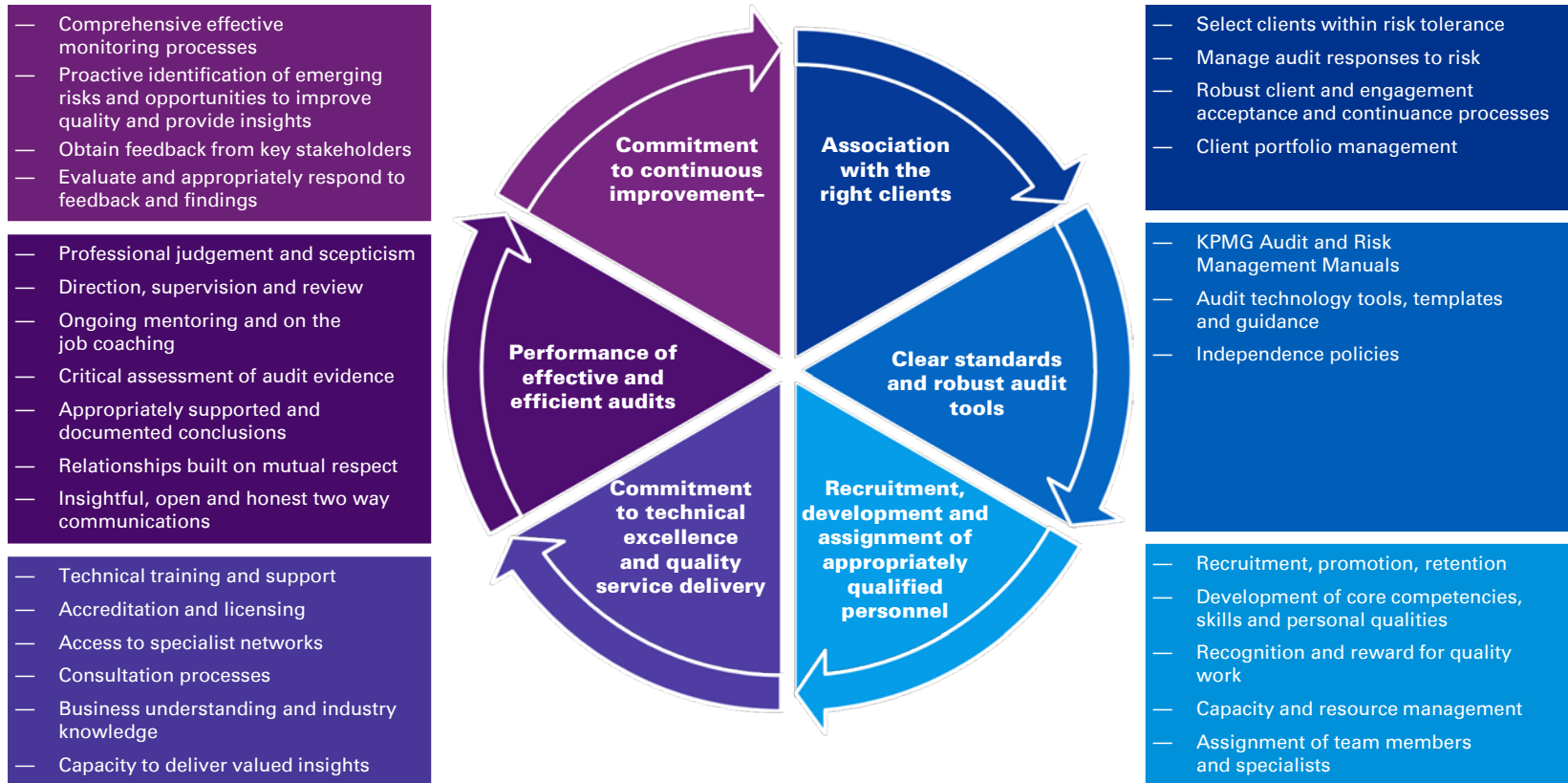
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AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix three outlines our approach to independence.
Financial 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 five summarises the opinions we have provided.</p> <p>Pages 15 and 16 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p> <p>We have not yet issued opinions in respect of grant claims and whole of government accounts.</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 30 includes arrangements to cooperate and coordinate with other scrutiny bodies.
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; and - Suitability of arrangements for preparing and publishing statutory performance information 	We set out our conclusions on wider scope and best value in from page 19 onwards.

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Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework



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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Audited Annual Accounts 2018/19
REPORT NUMBER	RES/19/293
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	4.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2018/19 audited Annual Accounts. The report also provides the audited Annual Accounts 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)

It is recommended that the Committee: -

- 2.1 approve the Council's audited Annual Accounts for the financial year 2018/19 for signature by the Chief Officer – Finance, Chief Executive and the Council Co-Leader, and;
- 2.2 approve the audited Annual Accounts 2018/19 for those registered charities where the Council is the sole trustee and nominate a trustee to sign the accounts.

3. BACKGROUND

3.1 Audited Annual Accounts

- 3.1.1 On 14 February 2019 this committee received and noted the contents of a report, "Annual Accounts 2018/19 – Action Plan" which provided high level information and key dates in relation to the production of the 2018/19 Annual Accounts. This table has been updated to reflect changes made to the earlier submission of the Auditor's report.

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

Date		Deadline
31 March 2019	End of the financial year 2018/19	
Jan – June 2019	Information from Group Entities (including ALEO's)	
18 April 2018	Public Notice for the Public Inspection Period to be issued	17 June 2019
30 April 2019	Signing of the unaudited Annual Accounts by the Proper Officer	30 June 2019
30 April 2019	Submission of the Annual Accounts to Auditors	30 June 2019
30 April 2019	Audit, Risk and Scrutiny Committee to consider the unaudited Annual Accounts	31 August 2019
14 May – 4 June 2019	Public Inspection Period for the unaudited Annual Accounts	1 July 2019
26 June 2019	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature	30 September 2019
26 June 2019	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader	30 September 2019
30 June 2019	Deadline for submission of the signed audited Annual Accounts to the Auditor	30 September 2019
19 July 2019 (tbc)	Submission of the unaudited Whole of Government Accounts (WGA) to the Scottish Government (date to be confirmed)	30 September 2019
31 July 2019	Publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies	31 October 2019
31 July 2019	Submission of the audited Charitable Trust Annual Accounts to OSCR	31 December 2019
30 September 2019 (tbc)	Submission of the audited WGA to the Scottish Government (date to be confirmed)	30 September 2019

3.1.3 On 30 April 2019 this committee considered the unaudited Annual Accounts and they were signed by the Chief Officer - Finance (as Proper Officer).

3.1.4 The unaudited Annual Accounts were available for public inspection for the period 14 May – 4 June 2019.

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

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 covering the detailed financial position of the Council was considered by the City Growth and Resources committee on 25 April 2019. That 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 2019.
- 3.2.3 KPMG, the Council's external auditors, have now completed their audit and the Committee will note their findings from the report, which was an earlier item on this Committee's agenda. The auditor has indicated that it will provide the Council with an unqualified audit opinion and this is incorporated into the Annual Accounts document, attached as Appendix A.
- 3.2.4 In addition to those adjustments identified by the audit, the Council undertook to incorporate changes that officers had identified too. The most significant of which was in relation to the actuarial assumptions for the pension assets and liabilities. This was to comply with accounting standards as a result the estimation assumptions used in the Draft Accounts. Revised reports were received from the Pension Fund actuaries and resulted in a net increase in liabilities of approximately £60m. This did not affect the Council's Usable Reserves.
- 3.2.5 A further adjustment to update the Asset Register for the year end transfer of land from the Housing Revenue Account to the General Fund was also updated and immaterial amendments were made between the Trust Accounts and the General Fund.
- 3.2.6 The group accounts have been amended to reflect all appropriate adjustments as well as any changes arising from the audit of other group entities.
- 3.2.7 These adjustments reflect a movement of £224 k to the overall financial position of the Council as reported to City Growth and Resources committee on 25 April 2019.
- 3.2.8 The statutory deadline for local authority financial statements to be audited and submitted to the appropriate committee is 30 September. It should be noted that the Council's Annual Accounts have now been audited, along with a Best Value audit being completed, three months ahead of the required deadline.

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 afore-mentioned report from the external auditor.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications, not already referred to, 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

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Legal	Risk of Legislation not being followed	L	Staff working with external audit to ensure compliance with legislation
Employee	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Customer	Customer/relationship management	L	External Auditors will examine and scrutinise the Annual Accounts and report their findings in the Annual Audit Report.
Environment	n/a	n/a	n/a
Technology	Risk that the Finance systems could be disrupted	L	Digital strategy that includes regular and rigorous checks to protect the integrity of all systems.
Reputational	Information contained in the Annual Accounts may cause damage to the Council's reputation	L	Independent examination by senior staff and external auditors

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	<p>The accounts for 2018/19 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.</p> <p>The economy is exposed to external issues such as EU Exit, 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.</p>
Prosperous People	<p>The Accounts for 2018/19 provide details of income and expenditure incurred in the provision of services in Aberdeen City for the year.</p>
Prosperous Place	<p>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.</p>
Enabling Technology	<p>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.</p>

This report does not impact on the design principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	not required
Privacy Impact Assessment	not required
Duty of Due Regard / Fairer Scotland Duty	not applicable

9. BACKGROUND PAPERS

Delivering Good Governance in Local Government, Framework (2016 Edition)' CIPFA & SOLACE, 2016;
'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities (2016 Edition)' CIPFA & SOLACE, 2016;
Audited Annual Accounts 2018/19

10. APPENDICES

Appendix A - Audited Annual Accounts 2018/19
Appendix B - Aberdeen City Council Registered Charities audited Annual Report and Accounts 2018/19

11. REPORT AUTHOR CONTACT DETAILS

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**AUDITED ANNUAL ACCOUNTS
FOR THE PERIOD
1 APRIL 2018 TO 31 MARCH 2019**

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Management Commentary

Introduction

The purpose of the management commentary is to inform users of the Annual Accounts and help them assess how the Council has performed during 2018/19 and understand our financial performance for the year to 31 March 2019. It also provides an insight into the medium-term financial planning we undertake to provide financial stability, to allow our customers to have confidence that we can continue to provide the diverse portfolio of services on which they rely.

Our performance reporting and core financial statements for 2018/19 meet the requirements of the Council and of the London Stock Exchange (LSE), and provide financial transparency for citizens of the City and beyond. Lessons learnt from the successful early close (for Annual Accounts 2017/18) have been implemented in developing the robust procedures and deadlines that are needed to ensure the unaudited Annual Accounts can be produced by the end of April 2019 and the audited Annual Accounts by the end of June 2019.

This publication represents the Annual Accounts of both Aberdeen City Council (the Council) and its group for the year ended 31 March 2019, which have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code). The Code is based on International Financial Reporting Standards (IFRS) and as such the accounts provide a reconciliation between the two reporting methodologies. For the 2018/19 Annual Accounts, the requirements of IFRS 9 for Financial Instruments have been introduced. This standard relates to financial assets and liabilities such as investments or debts and sets out the principles of recognition and measurement, impairment and derecognition.

Highlights

Aberdeen City Council is the main provider of services to the City's 229,000 residents and those who visit, work and do business in the City encompassing the wider North East population. Our resources are focused on the provision of Education, Social Work, Housing, Environmental and Community Services, as well as supporting investment in the City's infrastructure.

In 2018/19, the Operations Function was our largest spending responsibility, accounting for £225 million of our total £392 million service expenditure. This Function provided Education and Integrated Children's Services to over 36,000 children at a cost of £194 million and Operational and Protective services including roads and waste collection services at a cost of £39 million. £85 million was invested in Social Work services as part of the Integration Joint Board arrangement with NHS Grampian. £80 million was spent on Council Housing – managing and maintaining 21,974 homes. £34 million was spent on our Customer Function that includes housing support and customer service. The balance of £47 million was spent on the Resources and Commissioning Functions and City Growth, Place Planning and Governance service clusters.

In 2018/19, we received total income of £438 million, with this comprising £228 million and £117 million raised locally through non-domestic rates and council tax respectively, whilst £94 million was received from government grants, with the balance coming from service related grants, fees, charges and other income.

In setting its 2018/19 General Fund (GF) budget, against a backdrop of reducing revenue grant, £18.9 million of budget savings and increased income targets were approved; in addition, council tax was increased by 3% raising additional revenue of £3.4m. The savings were primarily proposed to be achieved by reducing our staff resource complement through introducing the Target Operating Model of £10.4 million and third party spend savings of £6.8 million. Substantially these savings were achieved, and governance was put in place to track the savings and mitigate and offset risk areas. Demand and the need to meet statutory obligations presented cost pressure during the year, alongside the rising cost of the workforce stimulated by the lifting of the Public Sector Pay Cap that was announced by the Cabinet Secretary for Finance and the Constitution in December 2017.

The final out-turn position was a 1% overspend on the function expenditure budget before funding of £438 million.

The Council introduced a revised reserves policy in March 2019. Usable revenue reserves stood at £58 million at 31 March 2019. This is a significant support for providing the financial resilience required into 2019/20.

Significant progress has been achieved on capital projects during 2018/19 with a total investment of £217 million including:

- Construction works are well advanced on The Event Complex Aberdeen (TECA), and the Energy Centre has been handed across to the Council as the first piece of complete infrastructure.
- The City Centre Masterplan continues to invest in Aberdeen; the Art Gallery refurbishment project achieved practical completion in early spring and has moved into the fit out phase; both Marischal Square and Broad Street are now operational; the revitalised Music Hall re-opened after refurbishment just before Christmas 2018.
- The Council's Local Transport Strategy achieved a major milestone in early 2019 with the opening of the final section of the Aberdeen Western Peripheral Route.
- Transport Connectivity continues to be supported by investment in the City Region Deal for the Aberdeen Harbour Extension project at Bay of Nigg and the associated roads infrastructure.
- Digital Connectivity has been enhanced through the City Region Deal by continued investment and expansion of the City's fibre network, alongside investment in Intelligent Street Lighting to compliment the investment in Street
- Lighting LED lanterns and replacement of corroded columns.
- The Council's Waste Strategy achieved a major milestone in March 2019 when Council approved the award of contract to the preferred bidder for the joint Energy from Waste facility, a project being carried out in collaboration with Aberdeenshire and Moray Councils.
- The new Lochside Academy and Stoneywood Primary both opened to pupils in summer 2019.
- The Council confirmed its commitment to its new school programme in March 2019, and appointments have been made to progress the £100 million investment on 4 new schools.
- Construction is complete on new and refurbished community facilities at Tillydrone Hub and Station House Media Unit.

The annual review of our credit rating was undertaken during the year, with the rating affirmed in November 2018 at Aa3 with a stable outlook.

The Council and Our Plans and Performance

- **Who we are** - We are one of 32 Councils in Scotland. We have 8,831 employees and their commitment, professional approach and expertise is critical to service delivery. The very nature of our services is such that we employ a diverse range of professionals including teachers, social workers, engineers, architects, lawyers, accountants, surveyors and administrators.
- **What we do** - Our governance is overseen by 45 members who are elected every 5 years by the citizens of Aberdeen. Following the Local Government Election on 4 May 2017, a joint Administration was formed by the Conservative, Labour and Independent Alliance.
- **Our goals and plans** - The Council operates across different planning levels from the North East region to individual localities, whilst internally planning from the corporate level to individual members of staff. Our key documents can be found below, and are available to view on the Council's website as detailed.
 - [Council Delivery Plan 2019/20](#)

On 5 March 2019 the Council Delivery Plan 2019/20 was approved. Full details can be viewed at the Council's website in Committee reports for the Council meeting in March 2019. This plan continues to build on the achievement of the council vision:

A place where all people can prosper

The plan summarises key deliverables under the headings:

- Our business for the year
- How we do our business and
- How we behave as an organisation

The 'Performance Management' section of the plan explains how we will monitor and track progress to ensure successful delivery.

The Delivery Plan is aligned to further key documents below:

- [Regional Economic Plan](#)

Approved in December 2015, providing a twenty-year vision for the well-being of the place and our people through a longer term plan for economic development. Full details can be viewed on the Council's website in Committee Reports for the Council meetings on 16 December 2015. Details of the updated action plan for 2018-2023 can be viewed in Committee Reports for the City Growth and Resources Committee on 19th June 2018.

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

Adopted during 2016/17, establishing improvement outcomes and associated measures for a ten year period, to be monitored and reported, in terms of outcomes, to the Community Planning Aberdeen (CPP) Board. The LOIP was refreshed in 2019 and approved by the CPP on 26 February 2019. The LOIP can be viewed on the website of Community Planning Aberdeen.

- [Policy Statement](#)

Approved in August 2017, providing the Administrations vision, Stronger Together – Prosperity for Aberdeen 2017-2022. Full details can be viewed at the Council's website in Committee reports for the Council meeting in August 2017.

- [The Target Operating Model](#)

On 23 August 2017, the Council approved a fundamental change in the way council services are managed and delivered through the implementation of a new Target Operating Model. Further development of the model was approved by Council on 11 December 2017 and a new governance structure aligned to the model was approved on 5 March 2018. The Scheme of Governance was further refreshed on 4 March 2019. The key documents can be found at the Council website in Committee reports for the Council meeting in August and December 2017, March 2018 and March 2019.

Phase 1 of the Council's transformation programme was the agreement and the implementation of the Target Operating Model (TOM) by 2020/21. Phase 1 has been successfully implemented and Phase 2 commenced during 2018/19. Phases 2 to 4 are characterised by a deliberate plan to translate the strategy of the TOM, incorporating the digital strategy, into the everyday of the organisation. The transformation programme will be key to delivering the extremely challenging financial targets for the council for 2019/20 and beyond.

Phases 2 to 4 of the transformation will be achieved through the delivery of seven capabilities, with digital as a key enabler to support their delivery. The capabilities flow from the design principles of the TOM and are articulated below:

1. Managing demand through prevention and early intervention
2. Being flexible and adaptable
3. Ensuring accountability, transparency and openness
4. Becoming intelligence led
5. Encouraging inclusiveness, engagement and collaboration
6. Achieving consolidation and consistency
7. Focussing on outcomes that make a difference

The capabilities will be delivered through seven programmes of work, one for each capability and a digital programme, incorporating a suite of transformational projects designed to deliver the capabilities and associated benefits, both financial and non-financial.

Delivery of the projects, and ultimately the capabilities, are managed by eight Programme Groups. The Programme Groups will ensure the delivery of the projects on time, on budget and to the agreed quality. Each of the Programme Groups is chaired by a Senior Responsible Officer (SRO).

The Programme Groups are accountable to the Transformation Management Group (TMG). The TMG will govern and provide strategic direction to the transformation portfolio and monitor the return on investment, ensuring achievement of the capabilities and subsequent delivery of benefits, both financial and non-financial.

- [Legislative duties](#)

The Council Delivery Plan details new legislation that may impact the Council directly during 2019/20.

PEOPLE (Children)	PEOPLE (Adults)	PLACE
<ol style="list-style-type: none"> 1. The Teachers' Superannuation and Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2019 2. Child Poverty (Scotland) Act 2017 3. The Continuing Care (Scotland) Amendment Order 2019 	<ol style="list-style-type: none"> 1. Community Care (Personal Care and Nursing Care) (Scotland) Amendment (Number 2) Regulations 2018 2. Domestic Abuse (Scotland) Act 2018 3. Criminal Justice (Scotland) Act 2016 4. Local Connection and Intentionality Provisions in the Homelessness etc (Scotland) Act 2003 	<ol style="list-style-type: none"> 1. Housing (Amendment) (Scotland) Act 2018 2. Planning (Scotland) Bill

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. In April 2018, our Scheme of Governance was enhanced by the introduction of a Staff Governance Committee and in March 2019 the Committee approved the guiding principles within the context of an updated behavioural framework to shape our future relationships with colleagues and customers.

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 (KPI). During 2018/19 we continued to develop programmes of engagement around transformation and the transformation zone. 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. Significantly, work continues to progress on the 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 and the additional commitment to £254 million from the Scottish Government which demonstrates the strategic importance of the City as an economic engine room within the UK. Full details can be viewed on the Council Website in Committee Reports for the Aberdeen City Region Deal Joint Committee. Further information is available including the 2018 Annual Report on the City Region Deal Website at Abzdeal.com

The proposed exit of the United Kingdom from the European Union will likely have an impact on the Council during the course of 2019/20. The Council receives its local authority grant funding from the Scottish Government, this is not connected to the European Union. At this stage there is no indication that either the UK or Scottish Parliaments intend to confer any new duties on local authorities in Scotland as part of the process of the UK exiting the European Union. This matter will continue to be monitored closely by the Council, with risk registers regularly reviewed and updated.

Performance Management System

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 its Statutory Direction on Performance Reporting.

The Council has a number of Arm's Length External Organisations (ALEOs), a number of which form part of our group and are reflected in the group accounts on pages 132 to 150. Significant investment is made in ALEOs by the Council and proper consideration must be given to their performance and governance arrangements. An ALEO

Assurance Hub is 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 ALEOs is embedded in the Council's culture.

Financial Performance

- [Balance Sheet](#)

The Balance Sheet on page 40 shows Net Assets of £1,289 million as at 31 March 2019 (£1,384 million at 31 March 2018), a reduction of £95 million. Long Term Assets have increased by £124 million (from £2,684 million at 31 March 2018), reflecting additions of £256 million to Property, Plant & Equipment (PPE), revaluation decreases of £92 million to the value of PPE, Heritage Assets and Investment Properties, disposals of £1 million and depreciation of £72 million. Short Term Assets have reduced by £24 million from the previous year, reflecting a decrease in Short Term Investments (£53 million) as a result of bond funds reducing in line with capital programme spending progress and increases in Cash & Cash Equivalents (£14 million) and Debtors (£15 million). Current Liabilities have increased by £128 million from the previous year, in Short Term Borrowing from other local authorities (£118 million) and Grants Received in Advance (£8 million). Long term liabilities have increased by £67 million, mainly due to an increase in PPP and pension liabilities.

Future liabilities, anticipated as a result of past events, are recognised as Provisions, where reasonably certain and quantifiable, and Contingent Liabilities where there is less certainty and limited or no data available to quantify any future financial liability. Full details can be found at Notes 35 and 36 on pages 101 – 105.

Total debt outstanding amounts to £1,056.6 million (2018 £936.9 million). The majority of borrowing comes from the Public Works Loans Board (PWLB) and a Bond Issuance, with the remainder coming from Market Loans and temporary borrowing from various public bodies and financial institutions. Borrowing predominantly supports the capital investment programmes but is also used in cashflow management.

- [Reserves](#)

Having reached the end of the financial year, a review of the overall position for both revenue and capital has been undertaken (as in previous years) to ensure the Council is suitably prepared for future revenue and capital investment purposes.

Capital Financing Costs is a significant budget within Corporate, and includes the impact of accounting requirements in relation to the Council's Bond Issuance, and an overall increased level of external borrowing. The actual charges for 2018/19 take account of the beneficial impact that arises from implementing treasury management advice on capital financing costs approved in April 2019 by the City Growth and Resources Committee. In addition the consistent approach of mitigating the accounting requirements in relation to the Bond issue are funded by usable reserves in the short term (Capital Fund), resulting in a medium to long term annual benefit for the General Fund budget.

Reviewing the practicalities and extension of the period over which Council assets will be used, and the interest rate applicable to the debt is a prudent approach to accounting for capital financing costs and this has been incorporated into the financial statements for 2018/19.

The review also considered the option, as available through statutory guidance from the Scottish Government, subject to certain conditions, to use capital receipts to fund the costs of Voluntary Severance/Early Retirement and concluded this to be the most suitable option at this time. To facilitate this, capital receipts normally held in the Capital Fund have been utilised to fund the costs incurred in 2018/19 and to create a provision for 2019/20 costs.

In certain circumstances, funds are required to be earmarked for use in future years. This can be to fulfil statutory obligations or where funding has been received but has not yet been spent. The most significant of these are income from second/long term empty homes, bus lane enforcement, pupil equity funding and general revenue grant received in advance.

The requirement to retain and manage financial reserves is a critical element of robust financial management and has a basis in statute. In setting its budget the Council must take cognisance of this strategy. A revised Reserves Strategy was approved by Council on 5 March 2019 and details can be found in the Committee Papers of this date.

Our reserves are detailed in Notes 5 and 6 on pages 59 to 64.

- [Treasury](#)

The annual review of the Council's credit rating was undertaken in November 2018 and affirmed at Aa3 with a stable outlook. In its credit opinion, the credit rating agency Moody's recognised the Council's "strong institutional framework" and "strong track record of operating performance".

The credit rating review followed the initial awarding of a credit rating in 2016, in advance of the successful £370million bond issuance on the London Stock Exchange.

The Council's Treasury Management Strategy for 2018/19 set the policies and boundaries for our investments and borrowings, with the stated investment priorities being a) security of capital; and b) the liquidity of investments. Full details can be viewed at the ACC website in Committee Reporting for Council Meeting on 5 March 2018.

- [Revenue](#)

During 2018/19, the Council set a net revenue expenditure budget of £526 million (being £439 million on the General Fund and £87 million on the Housing Revenue Account. The performance during the year resulted in a surplus of £8.3 million (represented by £0.5 million on the General Fund and £7.8 million on the Housing Revenue Account. This reflects the service performance prior to any year-end adjustments, such as the 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 65 and the Comprehensive Income and Expenditure Statement (CIES) on page 38 as follows:

Financial Performance 2018/19	Quarter 4 Final Position	Transfers between funds and other adjustments	(Surplus)/ Deficit per EFA	Other Adjustments	Statutory Adjustments	(Surplus)/ Deficit per CIES
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	(562)	23,482	22,920	(10,630)	71,022	83,312
Housing Revenue Account	(7,775)	(7,191)	(14,966)	(18,923)	54,517	20,628
(Surplus)/Deficit on provision of services	(8,337)	16,291	7,954	(29,553)	125,539	103,940
Other Comprehensive Income and Expenditure						(8,962)
Total Comprehensive Income & Expenditure Surplus						94,978

- [Capital](#)

The Capital budget for the period 2019/20 to 2023/24 was set at £657 million (General Fund £503 million, Housing £154 million). Total investment in Non Housing Capital 2018/19 was £269 million. This was financed by capital grants (£42 million), an increase in borrowing (£144 million) and capital receipts and other income (£83 million).

- [Group Accounts](#)

The Aberdeen City Council Group consists of subsidiaries, joint ventures and associate companies that are combined with Aberdeen City Council to produce a group balance sheet with total assets of £3,134 million. This is an increase against the total assets of the Council, which are £3,023 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 2018/19. Details can be seen on page 132.

- [Common Good](#)

The Common Good recorded a surplus of £0.8 million, largely due to increased rental income and lower than anticipated spend on a number of projects. As many of these projects are ongoing funds have been earmarked to provide the necessary funding to complete them during 2019/20.

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 £120.5 million at 31 March 2019, an increase of £6.2 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 126 to 128.

- [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 2019 was £10.6 million, an small increase of £0.08 million from last year. Further details on the Trust Funds and Endowments can be seen at pages 129 to 131.

Outlook including Risks and Uncertainties

- [Economy](#)

Aberdeen is at the heart of one of the most prosperous regions in the UK outside of London. Economic activity in Aberdeen and the North East is high due to a host of factors including the Oil and Gas Sector. Gross value added (GVA), productivity, disposable income levels, house prices and commercial property returns are significantly higher than Scotland and UK averages. This is an export-led economy with its export share considerably higher than its GVA share demonstrating the international reach of the city region.

The diversity of the economy provides significant opportunities for investment and business growth in both the short and longer term.

The decline in the price of oil between 2014 and 2016 has had an impact on the Aberdeen economy. Oil & Gas UK estimates that the UK Continental Shelf (UKCS) currently supports around 283,000 jobs across the UK, most of which are highly skilled and well paid. Since 2017 there has been a limited recovery in the oil price from its historic low in January 2016, that has enabled the sector in Aberdeen to refocus and look to the future.

The Council recognises the economic challenges it operates within. It delivers a wider range of enabling services (transport / roads, housing, planning and education) that are crucial to the functioning of the North East of Scotland as a competitive business, investment and visitor destination. The city is home to 11,000 'businesses' (including public administration), supporting around 189,000 jobs and generates an estimated £256m in non-domestic rates.

The population is still projected to grow over the next 35 years and this has informed the preparation of the statutory Aberdeen City and Shire Strategic Development Plan for the region, and Aberdeen Local Development Plan for the city. The annual Housing Land Audit (a joint Aberdeen City and Aberdeenshire Council report) is prepared using data provided by developers. In the 2018 Audit for the Aberdeen City area, an anticipated projection of housing completions totaling 9,219 units up to the year 2025 is shown (2019-2025). These units will

vary in size and type depending on where they are built. The Proposed Strategic Development Plan (2018) has calculated a Housing Supply Target of 17,702 units beyond the year 2025 (2026-2040).

This will obviously increase demand on a 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 business and income base and further strengthen Aberdeen's position as an economic anchor in the wider UK. 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.

The Council has prioritised Prosperous Economy as one of the key themes of the Local Outcome Improvement Plan and Policy Statement, with the sub themes of investment in infrastructure, inclusive economic growth, innovation and internationalisation. The importance of supporting wider community and economic regeneration to the success of achieving the Council's wider outcomes is a key principle, with the new Target Operating Model building cohesion through the Place and City Growth functions. The Council's investment in its capital programme directly supports the investment in new assets that support the diversification of the city region economy, including tourism, events, leisure and culture, and the delivery of the City Region Deal commitments on roads, harbour and digital infrastructure.

- [2019/20 Budget and Medium Term Financial Outlook](#)

The Council set its 2019/20 General Fund revenue budget, Housing Revenue Account, Common Good and five-year capital budgets on 5 March 2019. The 2019/20 General Fund budget presented proposals to address a significant gap of £41.2 million to Elected Members. The categories of savings proposals are £17.9 million of streamlining and reviewing services; £9.7 million of reductions in contract, grant and other expenditure; and £0.8 million of asset rationalisation proposals. £5.2 million is proposed to be raised by increasing Council Tax and £3.2 million from additional fees and charges. A further £4.3m is to be raised from other and one-off sources and use of earmarked reserves. The budget report and minute sets out the detailed proposals, risks and assumptions behind the future financial proposals. This can be found on the ACC website at Committee Reporting for Council meeting on 5 March 2019.

- [Risks and Uncertainties](#)

The council operates a risk management policy and strategy which identifies risks affecting the council, aligned to the strategic plan objectives. The Risk Management Framework was approved by the Audit Risk and Scrutiny Committee in February 2018.

The risk review and the corporate risk register were presented to the Audit, Risk and Scrutiny Committee on 25 September 2018. The key risks to the Council along with risk owners and mitigating actions are set out in this document. It can be found on the ACC website in Committee Reporting for the above committee.

Conclusion

The Council continues to maintain a healthy credit rating of Aa3 with a stable outlook, recognising "a strong institutional framework" and "a strong track record of operating performance" and thereby demonstrating external assurance on the financial governance and strength of the organisation.

The 2018/19 financial year results showed a surplus of £8.3 million for the year across all Council accounts. This shows another strong performance over the year and demonstrates longer term stability in service delivery going forward.

We will continue to invest in our staff and the infrastructure of the City in a financially sustainable way and the changes to the Council as it aligns to the Target Operating Model give us a strong direction for the future. Investment in providing an economically diverse and culturally rich environment, we believe, will continue to make Aberdeen a location of choice.

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 2018/19 Annual Accounts to very tight deadlines.

Jonathan Belford, CPFA
Chief Officer - Finance
26 June 2019

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

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 Chief Officer - 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 June 2019

The Chief Officer – 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;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the Council will continue in operational existence for the foreseeable future; and
- maintained such internal control as determined is necessary to enable the preparation of financial statements that are free from misstatement whether due to fraud or error.

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 2019.

Jonathan Belford, CPFA

Chief Officer - Finance

26 June 2019

Annual Governance Statement

PURPOSE OF ANNUAL GOVERNANCE STATEMENT

The CIPFA / SOLACE Framework “*Delivering Good Governance in Local Government: Framework (2016 Edition)*” 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 will include, 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 the Council’s governance framework and those of group entities, to the roles played in maintaining these, 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 2019 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, given the crucial role of governance, performance management and risk management 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. It also provides a measure of progress towards the Target Operating Model which relies on sound governance arrangements.

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 or comply with controls, 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;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and manage those risks 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 considered 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 also has an approved [Local Code of Corporate Governance](#). The Code 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.

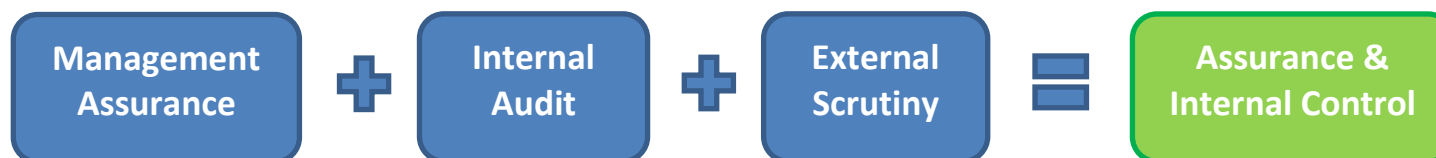
Principle A	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Principle B	Ensuring openness and comprehensive stakeholder engagement
Principle C	Defining outcomes in terms of sustainable economic, social and environmental benefits
Principle D	Determining 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 Council is a complex organisation with many controlling interests in other businesses. 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 in respect of 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 organisations.

SECTION 2 REVIEW OF EFFECTIVENESS

2.1 SOURCES OF ASSURANCE

The Council approached its review of governance activity with reference to three layers of assurance, namely management assurance 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.



2.1.1 Management Assurance

Each Chief Officer has reviewed the arrangements in his / her portfolio and certified their effectiveness to the Chief Officer – Governance and the Chief Officer – Finance. No significant internal control issues have been identified.

Governance sources of assurance and activity over the year is summarised in Table A on page 18. This has been reviewed by each Chief Officer with reference to their own portfolios.

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) further to assessment of returns by the Corporate Management Team. For 2018/19, 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 other 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, were in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the City Growth and Resources Committee.

During 2018/19 the Council implemented the new Scheme of Governance and reviewed it during its first year of operation. This led to further improvements being agreed in March 2019, to support more efficient and transparent decision making.

The Council also established a governance structure to support delivery of the Target Operating Model (TOM). This included a Transformation Management Group (TMG) to provide strategic direction and monitor the return on investment. The TMG has oversight of eight programmes of work which will deliver the TOM.

In addition, a Governance Function was established, including an Assurance Team, Democracy Team, Legal Team, and the Programme Management Office. This directly supports the strengthening of our governance framework and reinforces accountability and ownership across the organisation.

Below is information specific to the Council's group structure:

Group Entities

In terms of the group entities in which a controlling interest is held, assurances in relation to their control environment have been sought and received. This assurance has been provided by either the Managing Director or Finance Director, as evidenced by each organisation's most recent audited accounts. There are no significant areas to be included in this statement.

The Council also receives assurance from officers who attend board meetings and receive operational and performance information on a regular basis. The ALEO Strategic Partnership was established in 2016/17 which meets quarterly and brings together senior Council officers with senior ALEO representatives to discuss corporate governance, strategic planning, business planning and horizon scanning. This is chaired by the Head of Commercial and Procurement.

The ALEO Assurance Hub ("The Hub") has a remit to provide oversight of each ALEO's risk management, financial management and governance arrangements. The purpose of the Hub is to provide assurance to Council on ALEO governance whilst balancing this need with the rights of ALEOs to govern themselves as independent entities. The Hub continues to adopt a proportionate and risk-based approach and receives assurance from ALEOs through exception reporting which allows it to assess the level of ALEO risk to the Council.

The following ALEOs fall within the remit of the Hub and are therefore subject to the Hub terms of reference:-

- Sport Aberdeen
- Aberdeen Sports Village
- Bon Accord Care
- Aberdeen Heat and Power
- Aberdeen Performing Arts

The Hub reported to the Audit, Risk and Scrutiny Committee in May and September 2018 and February 2019 on the level of assurance they had received from each ALEO and advising on the level of risk to the Council. The Hub also reviewed its terms of reference and reported these to the Audit, Risk and Scrutiny Committee in December 2018. These were approved unanimously and the Hub was commended on the assurances provided.

The Hub reviewed the following areas in 2018/19:-

- Decision making, Board composition and capacity;
- Review of risk registers;
- Review of quarterly trading accounts and annual audited accounts;
- Review of internal and external audit arrangements;
- Accountability and transparency of ALEO decision making;
- Public participation in ALEO decision making;
- Business continuity planning;
- Information governance and data protection;
- Medium term financial planning;
- Schemes of Delegation and Financial Regulations; and
- Oversight by ALEO Risk Management Committees.

In the most recent report, in all cases the overall ratings were Low or Low-Medium.

Audit Scotland's report, *How Councils Use Arms-length Organisations*, reported that all sample councils had appropriate governance processes for overseeing ALEOs but more effective practice included scrutiny proportionate to the risks involved, and clear roles and responsibilities for councillor and officer oversight. Audit Scotland particularly highlighted Aberdeen City Council's ALEO Assurance Hub model as an example of effective practice in the oversight of ALEOs.

Integration Joint Board

The Aberdeen City Integration Joint Board (IJB) has taken a number of steps during 2018/19 to strengthen its governance arrangements. These include:-

- Review of Committee Terms of Reference
- Appointment of Data Protection Officer to the IJB
- Approval of ACHSCP Annual Report 2017/18
- IJB Developmental Workshop session - focus on the development of the new three-year Strategic Plan
- Chairs of the Audit and Performance Systems Committee and Clinical and Care Governance Committee reviewing remits of Committees to ensure alignment and reduce duplication
- Strategic Risk Register review – including revised risk register and risk appetite statement
- Strategic Plan 2019-2022 – consideration of governance milestones and the engagement activity the Partnership had undertaken to inform the refreshed three year plan. Development of a new suite of indicators to monitor the achievement of priority areas. Following the refresh of the Strategic Plan, the Partnership will review its portfolio of strategic documents. Consultation undertaken on draft Strategic Plan until end February 2019.
- Mapping of the performance indicators to the strategic priorities.
- Review of the IJB's Financial Regulations and Board Assurance and Escalation Framework
- Established an Audit and Performance Systems Committee timetable to ensure that the Terms of Reference of the Committee are being addressed during the financial year.
- Approval of IJB Workforce Plan.

The IJB 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 the IJB Chief Officer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City IJB's systems of governance.

2.1.2 Internal Audit

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

In April 2019, the Chief Internal Auditor provided the Council with an annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2019.

The report provided details of the position relating to the audits contained within the 2018/19 audit plan and highlighted that the majority of recommendations made had been accepted by management and if taken to full implementation will improve the Council's internal control environment. Having taken all factors into consideration the annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and control, as drafted, concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2019. The report further confirmed 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. This helped the Committee to gain assurance about the identified weaknesses and the actions being taken to address them. The Internal Audit plan for 2018/19 was agreed by the Audit, Risk and Scrutiny Committee on 22 February 2018. A total of 16 audits were completed by the end of the year, with a further 7 underway, and 2 rescheduled to later years. 159 recommendations were made, of which one was classed as major at corporate level and one major at a service level/within the audited area. The remainder were either significant within the audited area or important within the audited area. Although it is acknowledged that different areas of the organisation are audited each year, the total number of recommendations made by Internal Audit has reduced from 340 in 2016/17 and 274 in 2017/18.

Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to each Audit, Risk and Scrutiny Committee each cycle and the Corporate Management Team monthly. The number of recommendations that had not met their initial timescale for implementation has reduced from 45 at the start of the year to 14 at the date of publication of this report. This represents significant progress by officers in ensuring that outstanding audit recommendations are closely monitored and kept to a minimum.

2.1.3 External Scrutiny

The External Auditor, KPMG LLP, reports regularly to the Audit, Risk and Scrutiny Committee and its 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. The Audit, Risk and Scrutiny Committee considers the key risks from the external auditor's reports.

2.2 Assessment of Governance Activity

Self assessment provides reasonable assurance on the adequacy and effectiveness of Aberdeen City Council and its systems of governance and demonstrates fully our commitment to improving the governance of the Council.

Table A below summarises sources of assurance against the requirements of the Local Code of Governance for the period 1st April 2018 to 31st March 2019. This includes a self evaluation of effectiveness as at 31st March 2019 thereby providing assurance around our systems of internal control:

Table A

CIPFA Principle of Good Governance	Sources of Assurance 2018/19
A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	<ul style="list-style-type: none"> ➤ Information governance management, reporting and scrutiny, including implementation of General Data Protection Regulation 2018 by Council and its ALEOs ➤ Monitoring of Scheme of Governance to ensure that it supports progress towards the Target Operating Model; training delivered to elected members and officers; approval of further revisions to the Scheme of Governance to make decision making more efficient and transparent. Review noted as 'thorough and robust' and a 'positive evolution of the Council's overall governance framework' by external auditors. ➤ Member Officer Relations Protocol successfully utilised and facilitated positive remedial action. ➤ First annual review by Committees of their effectiveness against Terms of Reference initiated. ➤ Implementation of a new Scheme of Establishment and complaints process for Community Councils. ➤ Delivery of training on Bond Governance to Chief Officers, elected members and ALEOs. ➤ Development of a corporate policies register and corporate policies template linking all policies to strategic outcomes.
B - Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> ➤ Staff Governance Committee, including trade union adviser representatives. ➤ Weekly Director and trade union meetings to strengthen engagement. ➤ Regular meetings between Chief Officers and TU representatives for cluster level engagement ➤ Trade union engagement protocols implemented in respect of health and safety. ➤ City wide budget consultation event held with organisations supported by the Council directly and indirectly. ➤ Leadership Forum established to engage leaders at all levels to contribute towards the next stages of Transformation. ➤ Extensive engagement on a set of Guiding Principles as the new behavioural framework for the Council, culminating in approval by Staff Governance Committee. ➤ Annual review of the ALEO Assurance Hub in December 2018 resulting in revised terms of reference. ➤ Participated in a programme, through the Scottish Cities Alliance, to make "open data" available through a dedicated portal. ➤ Centralised customer feedback function, including social work complaints, to ensure further consistency in complaint handling. A new system to manage complaints was implemented. ➤ Tenant Participation Review Group established to review customer feedback. ➤ Implementation of Customer Experience Platform and enhanced digital capabilities, including new Council website and an extensive portfolio of new online services including digital school admissions. ➤ Joint review, including Council, civic and partner representatives to explore civic representation and involvement. The findings of this review will be developed through the Transformation programme. ➤ Involvement of community representatives, along with partner agencies, in the Community Planning Aberdeen consultation on the refreshed LOIP, and ongoing involvement in project groups including chairing the Community Engagement Group. ➤ Approved a Participatory Budgeting Policy, applying learning from local delivery and review of guidance and best practice. ➤ Approval of a Participatory Budgeting approach to the Common Good fund.

CIPFA Principle of Good Governance	Sources of Assurance 2018/19
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ➤ Allocation of £1.6m Fairer Aberdeen Fund through a Participatory Budgeting approach. ➤ Implementation of a Key Account Management System with the City's top business employers and Extended Corporate Management Team. ➤ Participation in various external partnerships which support the economic development of the Place of Aberdeen, for instance, City Region Deal Joint Committee. ➤ Approval of Local Outcome Improvement Plan 2019-2026. ➤ Approval of Corporate Delivery Plan 2019/20. ➤ Approval of commissioning intentions defining the contribution of the organisation to the LOIP. The commissioning intentions describe the priorities for the Council's in-house commissioned services in the next financial year. ➤ Approval of the Local Development Plan – Main Issues 2019. ➤ Agreement of a new Community Learning and Development plan 2018-21. ➤ Agreement of the draft Rapid Rehousing Transition Plan and membership of local Housing 1st Consortium. ➤ Agreement of the Local Housing Strategy. ➤ Approve of the Economic Policy Panel Annual Report.
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	<ul style="list-style-type: none"> ➤ Approval of Population Needs Assessment and establishment of data observatory. ➤ Approval of an outcome based commissioning model. ➤ Business Intelligence and Performance Management service within Commissioning Function accomplishing better understanding of need, demand, service delivery and support data driven decision making. ➤ Expansion of quality improvement training and support programme "Improve and Innovate" to 300 officers. ➤ Early Intervention and Community Empowerment service within Customer which will help to manage the increasing demand being placed on the Council's services, through the Council's Transformation programme. ➤ Enabled auto-entitlement of free school meals through data match.
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> ➤ Appointment of Extended Corporate Management Team including Chief Officers for Digital and Technology, People and Organisation and Business Intelligence and Performance. ➤ Creation of Governance Function including Assurance Team which provides support to all Council services to comply with health and safety, risk management, civil contingencies requirements. ➤ Training of councillors and officers on their obligations relative to the London Stock Exchange and Bond issue and on the Scheme of Governance. ➤ Completion of testing to deliver Core HR in preparation for delivery in 2019/20. ➤ Testing of revised Performance Review and Development system with Chief Officers and engagement with staff on revisions. ➤ Creation of consolidated ICT Security function. ➤ Leadership Capability Framework introduced for Chief Officers and a piloted self assessment to create a development programme and a capability framework for service managers. ➤ Continuation of development planning sessions for new and existing Chief Officers based on outcomes from the matching/ recruitment process. ➤ Establishment of training programme on use of data.

CIPFA Principle of Good Governance	Sources of Assurance 2018/19
F - Managing risk and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> ➤ Internal Audit's Annual Report and Internal Financial Control Statement for 2018/19 presented to Audit, Risk and Scrutiny Committee in April 2019. ➤ Risk Registers developed for all Cluster areas and reported to Committees ➤ Corporate Risk Register reviewed by Audit, Risk and Scrutiny Committee and Corporate Management Team. ➤ Organisational Resilience Group retained oversight of resilience actions, including incident debriefs, reporting quarterly to CMT. ➤ Review of credit rating by credit rating agency noting the Council's 'strong institutional framework' through internal governance and scrutiny. ➤ Establishment Control Board to manage and monitor reduction of headcount. ➤ Procurement Control Board established to manage and monitor reduction of expenditure. ➤ Scrutiny of safety management plans by Staff Governance Committee. ➤ Corporate Investigation Team minimising financial losses to the public purse as a result of fraudulent activities. ➤ Creation and approval of ICT Access Control Policy. ➤ Achieved Cyber Essentials Plus accreditation (government backed cyber scheme). ➤ Participation in a peer review for the PREVENT agenda as part of CONTEST and resulting recommendations being progressed. ➤ Receipt of Controller of Audit letter which noted 'high degree of scrutiny and challenge' with 'clear focus on outcomes' and 'leadership development activity.' ➤ Approval of revised Performance Management Framework.
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"> ➤ Revised Scheme of Governance. ➤ Implementation of a central Access to Information Team. ➤ Implementation of Business Services Team within Customer Function. ➤ Review and representation of public performance reporting. ➤ Improvements to City Region Deal governance arrangements.

SECTION 3 MONITORING IMPLEMENTATION AND FUTURE DEVELOPMENTS

In 2019/20 we will continue to progress with the review and monitoring of the Council's governance arrangements and a number of key activities will be completed. This will be supported by the Stewardship arm of the Corporate Management Team.

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 towards the end of 2019/20. The table below highlights some of the *primary* actions planned in 2019/20.

Table B

CIPFA Principle of Good Governance	Primary Actions Planned 2019/20
A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	<ul style="list-style-type: none"> ➤ Develop a Strategy and Policy Framework and review existing policies in line with corporate template, including Employee Code of Conduct, Money Laundering Policy, and various health and safety policies and procedures to respond to audit findings. ➤ Implementation of a multi-agency model for handling Subject Access Request from care experienced adults. ➤ Third review of the Council's Scheme of Governance. ➤ Approval of a Customer Charter. ➤ Establishment of a data ethics policy and governance arrangements.
B - Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> ➤ Development of models for civic leadership and engagement to strengthen collaborative decision making. ➤ Expand the use of the Customer Experience Platform for complaint handling to include all social work complaints. ➤ Continue to progress towards a UNICEF Child Friendly City and a Dementia Friendly City status. ➤ Continue to define and implement Citizen Juries Open Space events, Commons events with a focus on the common good, increased / enhanced use of the existing City Voice Citizen's Panel, emergent technology to interact with local residents and communities. ➤ During 2020, the complementary Participatory Budgeting project should have reached the stage of seeking approval of empowerment models and tracking benefit realisation. This will need to be integrated with Civic Leadership proposals. ➤ Design Thinking approach to be implemented in service redesigns across the Council, working together to co-design between customers, services and partners to identify solutions. ➤ Undertake consultation on a long term Housing Revenue Account rent policy for Council House rent. ➤ Expand the volume of open data available. ➤ Make the Data Observatory publicly available.
C - Defining outcomes in terms of sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> ➤ Mapping National, Regional, City and institutional strategies to delivery of outcomes. ➤ Continued transition to implementation of an outcome based commissioning model to ensure the strategic allocation of resources. ➤ Child Poverty Action Plan submission and compliance. ➤ Agreement of final Rapid Rehousing Transition Plan. ➤ Review of Community Safety, Risk and Concern and Criminal Justice hubs. ➤ Developing Community and Business resilience through targeted projects. ➤ Continued development of the Champions Board to improve outcomes of Care Experienced Young People.
D - Determining the interventions necessary to optimise the achievement of the intended outcomes	<ul style="list-style-type: none"> ➤ Develop an intelligence led reporting process for health and safety enabling identification of risk priorities to closure. ➤ Implementation of comprehensive Demand Management approach, both within the Council and with partners, to remove failure and avoidable demand and shift resources to preventative action. ➤ Support and manage multi-agency implementation of improvement projects identified within the LOIP to improve outcomes.
E - Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> ➤ Creation of health and safety training matrix for all levels of staff, as well as manager safety management and risk assessment training modules. ➤ Finalise Capability Framework for all staff, using the Chief Officer framework as a guide. ➤ Launch of Core HR. ➤ Delivery of a comprehensive programme of digital services and intelligent automation. ➤ Complete and roll out the revised Performance Review and Development system, including integration with CoreHR as part of phase 2 of that implementation. ➤ Use the Capability Framework for all staff as a basis for a corporate development plan which will increase individual and organisational capability in key areas

CIPFA Principle of Good Governance	Primary Actions Planned 2019/20
F - Managing risk and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> ➤ Development of a template for a 90 day plan as part of induction and separately development activity for ECMT. ➤ Expand training in use of data. ➤ Review Business Continuity Plans and implement a test regime and schedule. ➤ Completion of comprehensive Internal Audit Plan 19/20. ➤ Implement digital platform for monitoring outstanding audit recommendations, health and safety audits and assessments, health and safety policies and procedures and risk management. ➤ Continue programme of unannounced Health and Safety inspections by Senior Managers and Trade Union officials. ➤ Revised Risk Management Framework including Risk Appetite, revised format for risk registers corporately and training for staff. ➤ Development of audit and fire risk registers. ➤ Implementation of new Performance Management Framework, including revision of performance scorecards for all clusters; application of quality improvement approach to priority performance areas; and improvement of data analytics in performance management and reporting. ➤ Implementation of Travel Policy for officers and elected members. ➤ Bring Your Own Device Policy for mobile phones. ➤ Review of Community and Learning Associations to ensure Best Value from grant funding arrangements
G - Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"> ➤ Implement paperless consultation process for draft committee reports. ➤ Reporting of committee effectiveness reports to Full Council. ➤ Implementation of Performance Management Framework.

SECTION 4 SIGNIFICANT GOVERNANCE ISSUES ACTION PLAN

The Annual Governance Statement from 2017/18 identified 13 significant governance issues and in reviewing the progress made by officers of these actions, all of these have progressed sufficiently to be removed.

One additional issue has been added.

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
1	<i>New issues in 2018/19</i>		
	<u>EU Exit Preparedness</u>	Self-assessment	<ul style="list-style-type: none"> • EU Exit Steering Group established. • Membership includes Chief Officers leading thematic Incident Management Teams which are prepared for activation.

Issue Ref.	Issue Description	Source of Evidence	Action
2	Preparing the organisation to respond to exit from the European Union.		<ul style="list-style-type: none"> Risk Register reviewed by Steering Group and reported to Corporate Management Team on a monthly basis.
	<p><u>Accidental Uncontrolled Release of Asbestos Fibres</u></p> <p>During works at Bridge of Don Academy in July 2018 by the Council's Building Services. Incident reported to Health and Safety Executive (HSE) and investigation subsequently carried out. This confirmed that there had been contraventions of health and safety legislation.</p>	Health and Safety Executive	<ul style="list-style-type: none"> HSE identified remedial actions which were incorporated into an action plan. These related to procedures for dealing with accidental disturbances of asbestos, training, contract management. Action plan reported to Committee in January and March 2019. HSE confirmed in March 2019 that actions taken were satisfied with the procedures in place and remedial actions to prevent a reoccurrence.

SECTION 5 LEVEL OF ASSURANCE OBTAINED

The Council has undertaken a self-evaluation of its Local Code of Corporate Governance as at 31st March 2019. This demonstrates that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council and its systems of governance. As the interim transitional structure continues to embed and as working practices are improved through digital design and delivery, levels of assurance are expected to increase.

This review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively, and provides 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 and provide assurance to our internal and 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.

On behalf of Aberdeen City Council:

Angela Scott
Chief Executive

Councillor Douglas Lumsden
Co-Leader of the Council

26 June 2019

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 external audit. The other sections of the Remuneration Report will be reviewed by external audit 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 2018 (SSI No. 2018/38) which amended the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2017 (SSI No. 2017/66). 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 2018/19, the salary of the Leader of Aberdeen City Council is £39,655. 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, £29,742.

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 £443,985. 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, £29,742, with the remaining Senior Councillors receiving 75 per cent of that sum, £22,306.

In 2018/19, Aberdeen City Council had 16 Senior Councillor posts. The salary and allowances paid to them totalled £431,690 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. Functional Directors are based on Chief Officer spinal column point 53. The Chief Officers of Finance, Governance and Integrated Children's and Family Services are paid based on spinal column point 36. The Chief Officers of Strategic Place Planning and City Growth are paid based on spinal column point 34 and the Chief Education Officer on spinal column point 29. The Chief Social Workers are paid based on spinal column point 17 of the Local Authority Workers pay scale.

Aberdeen City Council takes part in the setting of the remuneration of its subsidiaries, 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.

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. Sport Aberdeen Ltd and Bon Accord Support Services Ltd.

Table 1: Remuneration Bands

Remuneration Band	Number of Employees		Remuneration Band (cont'd)	Number of Employees	
	2017/18	2018/19		2017/18	2018/19
£50,000 - £54,999	138	6	£155,000 - £159,999	1	-
£55,000 - £59,999	51	39	£160,000 - £164,999	1	1
£60,000 - £64,999	26	21	£165,000 - £169,999	2	-
£65,000 - £69,999	10	10	£170,000 - £174,999	1	-
£70,000 - £74,999	4	9	£175,000 - £179,999	1	2
£75,000 - £79,999	11	6	£180,000 - £184,999	2	-
£80,000 - £84,999	7	7	£185,000 - £189,999	1	-
£85,000 - £89,999	6	2	£200,000 - £204,999	-	2
£90,000 - £94,999	4	1	£205,000 - £209,999	1	1
£95,000 - £99,999	-	-	£210,000 - £214,999	-	1
£100,000 - £104,999	2	3	£220,000 - £224,999	1	-
£105,000 - £109,999	3	-	£225,000 - £229,999	1	-
£110,000 - £114,999	2	-	£230,000 - £234,999	-	-
£115,000 - £119,999	2	2	£235,000 - £239,999	2	-
£120,000 - £124,999	1	2	£240,000 - £259,999	-	-
£125,000 - £129,999	2	2	£260,000 - £264,999	1	-
£130,000 - £134,999	2	1	£265,000 - £289,999	-	-
£135,000 - £139,999	-	-	£290,000 - £294,999	1	-
£140,000 - £144,999	1	1	£295,000 - £294,999	-	-
£145,000 - £149,999	1	1	£375,000 - £379,999	-	1
£150,000 - £154,999	2	1	Total	291	122

Table 1 shows the total number of council employees receiving remuneration in each band, starting at £50,000. Remuneration includes early retirement/voluntary severance costs and pension strain costs. All of those over £125,000 (excluding the Chief Executive) are as a result of including pension strain costs.

Table 2: Total Remuneration Paid to Councillors

	2017/18 £	2018/19 £
Salaries	894,559	948,916
Allowances	-	-
Expenses	41,803	58,220
Total	936,362	1,007,136

Table 3: Exit Packages

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Exit Packages Approved		Cost of Exit Packages £'000					
	2017/18	2018/19	2017/18	2018/19	2017/18			2018/19		
					Benefits to Employee	Strain on Fund	Total	Benefits to Employee	Strain on Fund	Total
£0 - £19,999	-	-	115	81	1,039	116	1,155	774	71	845
£20,000 - £39,999	-	-	52	37	996	482	1,478	669	297	966
£40,000 - £59,999	-	-	17	13	441	364	805	187	530	717
£60,000 - £79,999	-	-	10	10	205	503	708	195	486	681
£80,000 - £99,999	-	-	14	5	235	1,044	1,279	77	377	454
£100,000 - £149,999	-	-	19	15	272	2,079	2,351	296	1,531	1,827
£150,000 - £199,999	-	-	15	9	255	2,323	2,578	148	1,556	1,704
£200,000 - £249,999	-	-	3	3	40	625	665	53	407	460
£250,000 - £299,999	-	-	1	-	23	245	268	-	-	-
£300,000 - £349,999	-	-	-	1	-	-	-	21	323	344
Total	-	-	246	174	3,506	7,781	11,287	2,420	5,578	7,998

Table 3 shows the number of exit packages agreed during the year and the cost of those packages.

Table 4: Remuneration of Senior Councillors

2017/18	Councillor Name	Responsibility	2018/19				Notes
			Salary, Fees and Allowances £	Non-Cash Expenses & Benefits-In-Kind £	Other Expenses £	Total Remuneration £	
39,508	Jennifer Laing	Co Leader of the Council	39,655	363	563	40,581	1
27,195	Douglas Lumsden	Co Leader of the Council	29,742	117	1,919	31,778	2
43,299	Barney Crockett	Lord Provost	29,742	1,371	24,600	55,713	
3,333	Tom Mason	Depute Provost (from 17 May 2017 until 29 June 2017)	-	-	-	-	
20,583	Ryan Houghton	Business Manager	29,742	90	-	29,832	3
29,184	Stephen Flynn	Convener, Audit, Risk and Scrutiny	29,742	103	180	30,025	
22,037	Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	22,306	158	325	22,789	
28,880	Yvonne Allan	Convener, Staff Governance	29,742	105	-	29,847	4
2,800	Neil Cooney	Convener, Communities, Housing and Infrastructure (until 16 May 2017)	-	-	-	-	
20,522	Philip Bell	Vice Convener, Operations (Environmental Spokesman)	22,306	151	1,456	23,913	
13,145	Freddie John	Vice Convener, Strategic Commissioning	22,306	276	-	22,582	
8,025	Brett Hunt	Vice Convener, Communities, Housing and Infrastructure (from 17 May 2017 until 23 August 2017)	-	-	-	-	
2,161	Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure (until 16 May 2017)	-	-	-	-	
27,243	John Wheeler	Convener, Operational Delivery	26,427	269	378	27,074	
2,797	Angela Taylor	Convener, Education and Children's Services (until 16 May 2017)	-	-	-	-	
19,594	Lesley Dunbar	Vice Convener, Education Operational Delivery	22,306	644	263	23,213	5
2,101	Scott Carle	Vice Convener, Education and Children's Services (until 16 May 2017)	-	-	-	-	
2,795	William Young	Convener, Finance, Policy and Resources (until 16 May 2017)	-	-	-	-	
22,910	Gordon Graham	Vice Convener, City Growth and Resources	22,306	840	-	23,146	
30,868	John Reynolds	Convener, Licensing Committee	29,742	373	10,971	41,086	6
2,141	Len Ironside CBE	NHS/Social Care Integration Joint Board & Social Care Spokesperson (until 16 May 2017)	-	-	-	-	
24,841	Alan Donnelly	Depute Provost (until 24 January 2019)	18,474	136	2,683	21,293	
2,829	George Adam	Lord Provost (until 16 May 2017)	-	-	-	-	
29,334	Marie Boulton	Convener, Capital Programme	29,742	90	122	29,954	
3,199	Ramsay Milne	Convener, Planning Development Management (until 16 May 2017)	-	-	-	-	
19,509	Jennifer Stewart	Depute Lord Provost (from 4 March 2019)	29,742	230	530	30,502	7
1,599	Andrew Finlayson	Vice Convener, Planning Development Management (until 16 May 2017)	-	-	-	-	
22,158	Ross Grant	Vice Convener, Operations Deliver	22,306	-	-	22,306	8
20,111	Sarah Duncan	NHS/Social Care Integration Joint Board & Social Care Spokesperson (from 17 May 2017)	22,306	104	271	22,681	
1,621	Claire Imrie	Mental Health Spokeperson	22,306	96	-	22,402	
496,322	Total		500,940	5,516	44,261	550,717	

Table 4: Notes

Note 1:	Councillor Laing is also Convener of Strategic Commissioning; Urgent Business Committee: Aberdeen City Region Deal and Strategic Transformation.
Note 2:	Councillor Lumsden is also Convener, City Growth and Resources and Vice Convener of the Capital Programme; Urgent Business Committee and Strategic Transformation.
Note 3:	Councillor Houghton is also Vice Convener Staff Governance.
Note 4:	Councillor Allan is also Convener Appeals Committee.
Note 5:	Councillor Dunbar is also Vice Convener Public Protection.
Note 6:	Councillor Reynolds is also Vice Convener Pensions Committee.
Note 7:	Councillor Stewart is also Convener Public Protection and Vice Convener Planning Development Management. As such a full year disclosure of remuneration has been made.
Note 8:	Councillor Grant is also Regeneration and Transport Spokesperson.

Table 5: Remuneration of Senior Employees of the Council

2017/18	2017/18			2018/19	2018/19			
Full Time Equivalent £	Total Remuneration £	Name	Post Title	Full Time Equivalent £	Salary, Fees and Allowances £	Compensation for Loss of Employment £	Total Remuneration £	Notes
149,807	153,801	Angela Scott	Chief Executive	151,407	151,407	-	151,407	
116,001	9,667	Andy MacDonald	Director of Customer Services	117,601	123,493	-	123,493	
-	-	Frank McGhee	Director of Commissioning	117,601	124,935	-	124,935	
116,001	17,667	Rob Polkinghorne	Chief Operating Officer	117,601	117,601	-	117,601	
116,001	92,851	Steven Whyte	Director of Resources	117,601	117,601	-	117,601	
-	-	Jonathan Belford	Chief Officer - Finance (from 1 September 18)	86,735	50,595	-	50,595	
85,135	85,635	Fraser Bell	Chief Officer - Governance (Monitoring Officer)	86,735	86,735	-	86,735	
-	-	Gale Beattie	Chief Officer - Strategic Place Planning	83,104	85,044	-	85,044	
-	-	Richard Sweetnam	Chief Officer - City Growth	83,104	83,104	-	83,104	
-	-	Alison McAlpine	Chief Social Work Officer (shared responsibility from 1 January 19)	56,681	14,169	-	14,169	
-	-	Isabel McDonnell	Chief Social Work Officer (shared responsibility from 1 January 19)	56,681	14,169	-	14,169	
-	-	Anne Donaldson	Chief Social Work Officer (until 31 December 18)	58,163	43,622	107,434	151,056	1
-	-	Graeme Simpson	Chief Social Work Officer (until 31 July 18)	58,163	19,388	-	19,388	
85,135	85,135	Bernadette Oxley	Chief Social Work Officer (until 31 March 18)	-	-	-	-	
-	-	Eleanor Sheppard	Chief Education Officer (from 1 September 19)	74,975	37,722	-	37,722	
116,001	85,216	Gayle Gorman	Depute Chief Executive (Director of Education and Children's Services) (until 3 December 2017)	-	-	-	-	
116,001	46,088	Pete Leonard	Depute Chief Executive (Director of Communities, Housing and Infrastructure) (until 3 April 2017)	-	-	-	-	
105,102	85,900	Marc Cole	City Centre Director (until 31 December 2017)	-	-	-	-	
81,504	239,785	Ciaran Monaghan	Head of Service, Office of Chief Executive (until 31 October 2017)	-	-	-	-	
81,504	14,293	Takki Sulaiman	Head of Communications and Promotion (until 7 May 2017)	-	-	-	-	
	916,038	Total			1,069,585	107,434	1,177,019	

Note 1: Of the £107,434 shown for compensation for loss of employment £56,758 was paid to Anne Donaldson and £50,676 was the strain on the fund cost.

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

2017/18			2018/19				
Total Remuneration £	Name	Post Title	Salary, Fees and Allowances £	Compensation for Loss of Office £	Benefits Other Than in Cash £	Total Remuneration £	Note
92,400	Alistair Robertson	Managing Director Sport Aberdeen Ltd	94,213	-	-	94,213	
-	Alistair MacLean	Assistant Managing Director (from September 2018) Bon Accord Support Services Ltd	55,903	-	-	55,903	
96,028	Sandra Ross	Managing Director (until 31 August 2018) Bon Accord Support Services Ltd	39,828	-	-	39,828	
25,022	Graeme Cumming	Interim Managing Director Aberdeen Exhibition & Conference Centre Ltd (AECC Ltd)	-	-	-	-	1
213,450	Total		189,944	-	-	189,944	

Note 1: AECC Ltd ceased to be the operators of the Aberdeen Exhibition and Conference Centre on 31 March 2017. As a result the Company was 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 Career Average Revalued Earnings (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 2017/18	Pensionable pay	Contribution rate 2018/19
On earnings up to and including £20,700	5.5%	On earnings up to and including £21,300	5.5%
On earnings above £20,700 and up to £25,300	7.25%	On earnings above £21,300 and up to £26,100	7.25%
On earnings above £25,300 and up to £34,700	8.5%	On earnings above £26,100 and up to £35,700	8.5%
On earnings above £34,700 and up to £46,300	9.5%	On earnings above £35,700 and up to £47,600	9.5%
On earnings above £46,300	12%	On earnings above £47,600	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 2019.

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 2019.

Table 9: Details of pension contributions made by the Council's subsidiary bodies i.e. 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 by ACC		Accrued Pension Benefits		
		For year to 31 March 2018 £	For year to 31 March 2019 £		As at 31 March 2019 £'000	Difference from 31 March 2018 £'000
Jennifer Laing	Co Leader of the Council	7,481	7,653	Pension Lump Sum	7 2	1 -
Douglas Lumsden	Co Leader of the Council	5,101	5,740	Pension	1	-
Barney Crockett	Lord Provost	5,503	5,740	Pension Lump Sum	6 2	1 -
Ryan Houghton	Business Manager	3,955	5,740	Pension	1	1
Stephen Flynn	Convener, Audit, Risk and Scrutiny	5,611	5,740	Pension	2	1
Ian Yuill	Vice Convener, Audit, Risk and Scrutiny	4,233	4,305	Pension Lump Sum	5 2	1 1
Yvonne Allan	Convener, Staff Governance	5,503	5,740	Pension Lump Sum	7 2	2 -
Neil Cooney	Convener, Communities, Housing and Infrastructure (until 16 May 2017)	537	-	Pension Lump Sum	- -	(7) (2)
Philip Bell	Vice Convener, Operations (Environmental Spokesman)	3,852	4,305	Pension	1	1
Freddie John	Vice Convener, Strategic Commissioning	2,526	4,305	Pension	1	1
Brett Hunt	Vice Convener, Communities, Housing and Infrastructure (from 17 May 2017 until 23 August 2017)	1,534	-	Pension	-	-
Jean Morrison MBE	Vice Convener, Communities, Housing and Infrastructure (until 16 May 2017)	403	-	Pension	-	(3)
John Wheeler	Convener, Operational Delivery	5,101	5,101	Pension	1	-
Angela Taylor	Convener, Education and Children's Services (until 16 May 2017)	537	-	Pension	-	(3)
Lesley Dunbar	Vice Convener, Education Operational Delivery	3,614	4,305	Pension	3	1
Scott Carle	Vice Convener, Education and Children's Services (until 16 May 2017)	403	-	Pension	-	(2)
William Young	Convener, Finance, Policy and Resources (until 16 May 2017)	537	-	Pension Lump Sum	- -	(4) (2)
Gordon Graham	Vice Convener, City Growth and Resources	4,254	4,305	Pension Lump Sum	5 2	1 1
John Reynolds	Convener, Licensing Committee	4,358	5,740	Pension Lump Sum	6 2	1 -
Alan Donnelly	Depute Provost (until 24 January 2019)	4,254	3,565	Pension Lump Sum	7 10	- 1
George Adam	Lord Provost (until 16 May 2017)	537	-	Pension	-	(3)
Marie Boulton	Convener, Capital Programme	5,644	5,740	Pension Lump Sum	6 2	1 1
Ramsay Milne	Convener, Planning Development Management (until 16 May 2017)	403	-	Pension	-	(2)
Jennifer Stewart	Depute Lord Provost (from 4 March 2019)	4,145	5,740	Pension Lump Sum	5 2	1 -
Ross Grant	Vice Convener, Operations Deliver	4,254	4,305	Pension	3	-
Sarah Duncan	NHS/Social Care Integration Joint Board & Social Care Spokesperson (from 17 May 2017)	3,852	4,305	Pension	1	1
Claire Imrie	Mental Health Spokeperson	311	4,305	Pension	1	1
Total		88,443	96,679	Pension Lump Sum	69 26	(8) -

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 2018 £	For year to 31 March 2019 £		As at 31 March 2019 £'000	Difference from 31 March 2018 £'000
Angela Scott	Chief Executive	28,913	29,222	Pension	69	4
Andy MacDonald	Director of Customer Services	1,866	22,697	Pension	25	25
Frank McGhee	Director of Commissioning	17,872	22,697	Pension	2	2
Rob Polkinghorne	Chief Operating Officer	1,866	22,697	Pension	3	3
Steven Whyte	Director of Resources	17,872	22,697	Pension	39	9
				Lump Sum	58	13
Jonathan Belford	Chief Officer - Finance (from 1 September 18)	-	9,765	Pension	1	1
				Lump Sum	-	-
Fraser Bell	Chief Officer - Governance (Monitoring Officer)	16,431	16,740	Pension	14	2
Gale Beattie	Chief Officer - Strategic Place Planning	-	16,414	Pension	26	9
				Lump Sum	42	16
Richard Sweetnam	Chief Officer - City Growth	-	16,039	Pension	22	2
				Lump Sum	20	-
Alison McAlpine	Chief Social Work Officer (shared responsibility from 1 January 19)	-	2,735	Pension	14	1
				Lump Sum	16	1
Isabel McDonnell	Chief Social Work Officer (shared responsibility from 1 January 19)	-	2,735	Pension	24	2
				Lump Sum	42	1
Graeme Simpson	Chief Social Work Officer (until 31 July 18)	-	3,742	Pension	27	7
				Lump Sum	40	10
Anne Donaldson	Chief Social Work Officer (until 31 December 18)	-	8,419	Pension	32	2
				Lump Sum	65	3
Bernadette Oxley	Chief Social Work Officer (until 31 March 18)	16,431	-	Pension	-	(40)
Eleanor Sheppard	Chief Education Officer (from 1 September 19)	15,106	7,280	Pension	24	4
				Lump Sum	57	8
Gayle Gorman	Depute Chief Executive (Director of Education and Children's Services)	15,106	-	Pension	-	(11)
Pete Leonard	Depute Chief Executive (Director of Communities, Housing and Infrastructure)	1,847	-	Pension	-	(41)
				Lump Sum	-	(74)
Marc Cole	City Centre Director (until 31 December 2017)	15,214	-	Pension	-	(4)
Ciaran Monaghan	Head of Service, Office of Chief Executive (until 31 October 2017)	9,176	-	Pension	-	(38)
				Lump Sum	-	(78)
Takki Sulaiman	Head of Communications and Promotion (until 7 May 2017)	1,591	-	Pension	-	(4)
TOTAL		159,291	203,879	Pension	322	(65)
				Lump Sum	340	(100)

- 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 2018 £	For year to 31 March 2019 £		As at 31 March 2019 £'000	Difference from 31 March 2018 £'000	Note
Alistair Robertson	Managing Director Sport Aberdeen Ltd	8,640	8,814	Pension	52	3	
Alistair MacLean	Assistant Managing Director (from September 2018) Bon Accord Support Services Ltd	-	9,280	Pension	8	8	
Sandra Ross	Managing Director (until 31 August 2018) Bon Accord Support Services Ltd	14,596	6,874	Pension	10	1	
Graeme Cumming	Interim Managing Director, Aberdeen Exhibition & Conference Centre Ltd	3,462	-		n/a	n/a	1
Total		26,698	24,968	Total	70	12	

Note 1: Aberdeen Exhibition & Conference Centre Ltd contributed 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 June 2019

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 2017	(50,476)	(11,308)	(25,607)	0	(87,391)	(1,405,587)	(1,492,976)
Movement in Reserves during 2017/18							
Total Comprehensive Income & Expenditure	58,844	14,159	0	0	73,003	36,084	109,087
Adjustments between accounting basis & funding basis under regulations (note 5)	(27,328)	(14,659)	(1,523)	0	(43,510)	43,510	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	31,516	(500)	(1,523)	0	29,493	79,594	109,087
Transfers to/from Other Statutory Reserves (note 6)	(21,737)	0	13,670	0	(8,067)	8,067	0
(Increase)/Decrease in 2017/18	9,779	(500)	12,147	0	21,426	87,661	109,087
Balance at 31 March 2018 carried forward	(40,697)	(11,808)	(13,460)	0	(65,965)	(1,317,926)	(1,383,891)

	General Fund Balance £'000	Housing Revenue Account £'000	Statutory and Other Reserves £'000	Capital Grants & Receipts Unapplied Account £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2018 brought forward	(40,697)	(11,808)	(13,460)	0	(65,965)	(1,317,926)	(1,383,891)
Movement in Reserves during 2018/19							
Total Comprehensive Income & Expenditure	81,284	23,138	0	(482)	103,940	(8,962)	94,978
Adjustments between accounting basis & funding basis under regulations (note 5)	(65,139)	(30,906)	(663)	0	(96,708)	96,708	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	16,145	(7,768)	(663)	(482)	7,232	87,746	94,978
Transfers to/(from) Reserves	(10,502)	7,268 *	3,298	0	64	(64)	0
(Increase)/Decrease in Year	5,643	(500)	2,635	(482)	7,296	87,682	94,978
Balance at 31 March 2019	(35,054)	(12,308)	(10,825)	(482)	(58,669)	(1,230,244)	(1,288,913)

*£7.3m was transferred from Housing Revenue Account (HRA) revenue balances to General Fund (GF) to compensate the GF for the fair value transfer of land to the HRA. This transfer was treated as a capital receipt by the GF and was transferred to the GF Capital Fund.

Comprehensive Income and Expenditure Statement

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

2017/18 *				2018/19		
Gross Expenditure* £'000	Gross Income* £'000	Net Expenditure* £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
293,971	(32,622)	261,349	Operations	314,563	(33,429)	281,134
108,592	(68,583)	40,009	Customer	105,592	(68,565)	37,027
27,522	310	27,832	Commissioning	32,531	(2,520)	30,011
30,882	(17,149)	13,733	Resources	52,769	(39,724)	13,045
27,406	(6,841)	20,565	Place	30,696	(7,112)	23,584
11,455	(1,987)	9,468	Governance	3,995	(1,347)	2,648
219,819	(135,092)	84,727	Integration Joint Board	226,726	(140,292)	86,434
60,642	(13,902)	46,740	Corporate	36,110	7,146	43,256
102,475	(85,852)	16,623	Housing Revenue Account	116,789	(96,161)	20,628
882,764	(361,718)	521,046	Cost of Services	919,771	(382,004)	537,767
0	(1,273)	(1,273)	Other Operating Expenditure (note 8)	0	(72)	(72)
89,336	(51,928)	37,408	Financing and Investment Income and Expenditure (note 9)	97,751	(50,576)	47,175
0	(484,178)	(484,178)	Taxation and Non Specific Grant Income (note 10)	0	(480,930)	(480,930)
972,100	(899,097)	73,003	(Surplus) or Deficit on Provision of Services	1,017,522	(913,582)	103,940
		(1,532)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(9,404)
		580	(Surplus)/deficit on revaluation of available for sale financial assets			0
		36,188	Actuarial (gains)/losses on pension assets/liabilities			(4,617)
		848	Other (gains)/losses			5,059
		36,084	Other Comprehensive Income and Expenditure			(8,962)
		109,087	Total Comprehensive Income and Expenditure			94,978

*As a result of a full Council restructure of services, the 2017/18 Gross Income and Expenditure have been restated to reflect the new Target Operating Model structure that came into operation on 1 April 2018 as discussed on page 4.

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

1 April 2017 £'000	31 March 2018 £'000		Note	31 March 2019 £'000
2,238,305	2,311,324	Property, Plant & Equipment	28	2,438,886
172,756	197,370	Heritage Assets	27	197,691
85,335	148,592	Investment Property	26	145,832
18,656	18,076	Long Term Investments	38	17,638
7,311	8,222	Long Term Debtors	38	7,592
2,522,363	2,683,584	Long Term Assets		2,807,639
181,145	56,202	Cash and Cash Equivalents	17	70,520
141,227	98,705	Short Term Investments	38	45,213
78,677	77,292	Short Term Debtors	33	92,158
1,645	1,174	Inventories	32	1,832
5,382	6,198	Assets Held for Sale	31	5,693
408,076	239,571	Current Assets		215,416
(81,351)	(79,435)	Short Term Borrowing	38	(197,228)
(90,364)	(78,613)	Short Term Creditors	34	(80,860)
(4,233)	(5,758)	Short Term Provisions	35	(5,259)
(2,611)	(3,222)	PPP Short Term Liabilities	30	(4,230)
(5,515)	(5,607)	Accumulated Absences Account	13	(5,607)
(473)	(578)	Grants Receipts in Advance - Revenue	37	(2,989)
(518)	(7,855)	Grants Receipts in Advance - Capital	37	(13,091)
(185,065)	(181,068)	Current Liabilities		(309,264)

1 April 2017 £'000	31 March 2018 £'000		Note	31 March 2019 £'000
(900,871)	(890,982)	Long Term Borrowing	38	(895,954)
0	(58,425)	Finance Lease	25	(58,029)
(108)	(108)	Long Term Creditors	38	(13)
(679)	(679)	Long Term Provisions	35	(551)
(100,973)	(97,751)	PPP Long Term Liabilities	30	(138,223)
(249,767)	(310,251)	Pension Liabilities	22	(332,108)
(1,252,398)	(1,358,196)	Long Term Liabilities		(1,424,878)
1,492,976	1,383,891	Net Assets		1,288,913
		Usable Reserves:		
(50,476)	(40,697)	General Fund Balance		(35,054)
(11,308)	(11,808)	Housing Revenue Account		(12,308)
(25,605)	(13,460)	Statutory and Other Reserves		(10,825)
0	0	Capital Grants Unapplied Account		(482)
(1,405,587)	(1,317,926)	Unusable Reserves	13	(1,230,244)
(1,492,976)	(1,383,891)	Total Reserves		(1,288,913)

Jonathan Belford, CPFA
Chief Officer - Finance

26 June 2019

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.

2017/18		2018/19
£'000		£'000
(73,003)	Net Surplus or (Deficit) on the provision of services	(103,940)
138,285	Adjust net surplus or deficit on the provision of services for non cash movements (note 14)	162,692
(37,268)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(29,420)
28,014	Net cash flows from Operating Activities (note 14)	29,332
(121,902)	Net cash flows from Investing Activities (note 15)	(119,469)
(31,055)	Net cash flows from Financing Activities (note 16)	104,455
(124,943)	Net increase or (decrease) in cash and cash equivalents	14,318
181,145	Cash and cash equivalents at the beginning of the reporting period	56,202
56,202	Cash and cash equivalents at the end of the reporting period (note 17)	70,520

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

The Annual Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year ended 31 March 2019. 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 2018/19 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 and services is recognised in accordance with the terms and conditions of the contract;
- 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; and
- 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.

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 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 amortisation 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 Operations 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 a discount rate of 2.7%.
- 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 approved. 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.

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). The 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 several 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 according to the business model to which they relate. The business model determines how the asset will be treated in the financial statements

1. Financial assets measured at amortised cost. These are assets held for the purpose of collecting contractual cash flows. This category includes short term investments and long-term loans granted. An impairment allowance may be calculated based on materiality and circumstance of asset.
2. Financial assets measured at fair value through profit and loss. This includes any financial assets held for purposes other than collecting contractual cash flows and selling the asset. Shares in group entities fall into this classification.

Financial assets measured at amortised cost

Loans 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. Where an impairment allowance is made this will be charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial assets measured at fair value through profit and loss

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

As a result of reclassification in 2018/19 the balance of the Available for Sale Financial Instruments Reserve has been coded to the Comprehensive Income and Expenditure Statement through the Financing Investment Income and Expenditure line. Changes in fair value in future years will be charged to the General Fund using the method outlined above.

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 valuation. 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 valuation. 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 valuation. 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 valuation 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 xxi in this summary of significant accounting policies).

xiii Interests in Companies and Other Entities

The Council has material interests in companies and other entities. In line with the level of Control that the Council exerts over these entities, they can be classified as Subsidiaries, Associates and Joint Ventures. The Council is required to prepare Group Accounts incorporating all of these entities. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at net worth.

xiv 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.

xv 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.

xvi 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.

xvii 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.

xviii 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.

xix 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:

- 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 an asset is no longer held for the purposes of generating cash flows 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.

xx 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.

xxi 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.

xxii 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 set 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.

xxiii Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does 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.

xxiv 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.

xxv New accounting standards

The Code of Practice on Local Authority accounting for 2018/19 was revised to take into account the latest International Financial Reporting Standards (IFRS), IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* coming into effect.

IFRS 9 includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a 'forward looking' expected loss' model for impairment rather than the previous 'incurred loss' model.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward.

Both of these changes have been considered as part of the preparation of the Council's accounts for 2018/19 and neither are considered to have a material impact on the financial statement.

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 2019/20 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property clarifies guidance regarding transfers in and out of investment properties, where there has been evidence of a change of use and property now meets, or ceases to meet the definition of an investment property. This will have no impact on the Council as it currently complies with this procedure.
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
 - The improvement to IFRS 1 First-time Adoption of International Financial Reporting Standards concerns the deletion of short-term exemptions for first-time adopters because they have now served their intended purpose.
 - IFRS 12 Disclosure of Interests in Other Entities applies to the disclosure requirements of an entity's interests that are classified as held for sale, held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
 - IAS 28 -Investments in Associates and Joint Ventures clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition
- IFRIC 22 Foreign Currency Transactions and Advance Consideration applies to foreign currency transactions where a non-monetary asset or liability arises from either the payment or receipt of an advance consideration, before recognition of the related asset, expense or income. The Council does not have any material transactions within the scope of this standard.
- IFRIC 23 Uncertainty over Income Tax Treatments clarifies the accounting for uncertainties in income taxes and should be used when determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax treatments under IAS12. The Council does not have any material transactions within the scope of this amendment.
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation alters the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income). The Council does not currently have any such transactions within the scope of this amendment.

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 Lochside Academy, 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 £200.7 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 2019 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.
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 £26.3m. If the investment yield is reduced by 0.25%, this would lead to a corresponding increase in the total value of council dwellings of £27.8m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Aberdeen City Council Bond	The Council undertook a bond issuance from the Debt Capital Markets in November 2016. £370 million of index-linked bonds were issued to investors. The outstanding bonds are subject to indexation, which is based on movements in the Retail Price Index (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 £4 million in amounts repayable.
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 £30.5 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 £31.1 million. The interaction of assumptions is therefore extremely complex. See note 22 for further assumptions.
Arrears	At 31 March 2019 the Council had a balance of short term debtors of £92.158 million. This is net of an allowance for the impairment of debt of £59.949 million.	If collection rates were to deteriorate, an increase of 1% on impairment would require a further provision of £0.922 million.

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.

2017/18	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	(41,549)	(29,106)	0	0	0	70,655
Revaluation losses on Property, Plant and Equipment	(13,607)	(26,574)	0	0	0	40,181
Capital grants and contributions applied	37,067	11,079	0	0	0	(48,146)
Write off carrying amount of non current assets sold	(1,403)	(3,054)	0	0	0	4,457
Write off carrying amount of non current assets scrapped	(6,754)	0	0	0	0	6,754
Statutory provision for the financing of Capital spend (3R's)	2,611	0	0	0	0	(2,611)
Movement in the fair value of Investment Properties	4,651	0	0	0	0	(4,651)
Amortisation of Intangible Assets	0	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	13,527	7,034	0	0	0	(20,561)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	(191)	22,496	0	0	0	(22,305)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(1,523)	5,746	0	(4,223)
Proceeds from sale of non current assets	1,732	4,555	0	(6,287)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset disposals	(80)	(461)	0	541	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	427	0	0	0	0	(427)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(56,667)	(1,753)	0	0	0	58,420
Employer's pensions contributions and direct payments to pensioners payable in the year	32,979	1,146	0	0	0	(34,125)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	(71)	(21)	0	0	0	92
Total Adjustments	(27,328)	(14,659)	(1,523)	0	0	43,510

2018/19	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	(41,683)	(30,160)	0	0	0	71,843
Revaluation losses on Property, Plant and Equipment	(41,961)	(24,015)	0	0	0	65,976
Capital grants and contributions applied	37,333	4,764	0	0	0	(42,097)
Write off carrying amount of non current assets sold	(907)	(84)	0	0	0	991
Write off carrying amount of non current assets scrapped	(420)	0	0	0	0	420
Statutory provision for the financing of Capital spend (3R's)	4,537	0	0	0	0	(4,537)
Movement in the fair value of Investment Properties	(2,822)	0	0	0	0	2,822
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure</u>						
Loan principal repayments during the year	9,533	4,483	0	0	0	(14,016)
Capital expenditure charged against the General Fund and HRA balances and other statutory funds	(4,103)	14,440		0	0	(10,337)
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(663)	1,065	0	(402)
Proceeds from sale of non current assets	971	745	0	(1,716)	0	0
Contribution from Capital Receipts Reserve towards the administrative costs of non current asset	(149)	(502)	0	651	0	0
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	429	0	0	0	0	(429)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(60,683)	(1,680)	0	0	0	62,363
Employer's pensions contributions and direct payments to pensioners payable in the year	34,785	1,104	0	0	0	(35,889)
Adjustments involving the Accumulated Absences Account:						
Adjustments in relation to short term compensated absences	0	0	0	0	0	0
Total Adjustments	(65,140)	(30,905)	(663)	0	0	96,708

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 Housing Revenue Account (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 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	Balance at 31 March 2019 £'000	Purpose of the Earmarked Reserve
General Fund:								
ICT Projects	(816)	0	816	0	0	0	0	Implement various approved ICT projects
Devolved Education Management (Community Centres)	(598)	0	36	(562)	0	20	(542)	Community Education Centres funds c/forward
Devolved Education Management (School Funds)	(857)	(136)	0	(993)	(98)	829	(262)	School funds c/forward
Mithers Kirk - Reburial of Remains	0	(38)	0	(38)	0	13	(25)	Reburial of Human Remains
Business Plan Service Option	(223)	0	70	(153)	0	153	0	Investment regarding delivery of 5 year business plan
Star Awards Sponsorship	(25)	(18)	18	(25)	0	19	(6)	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
Employee Benefit Scheme	(77)	0	77	0	0	0	0	For marketing the Employee Benefit Scheme
Xerox Print Contract	(317)	0	217	(100)	0	87	(13)	2016/17 rebate from Xerox to fund various Data projects
Events - Silver City Stories	(8)	0	8	0	0	0	0	Marketing for Silver City Stories Income received by Events Team during 2016/17
City Deal	(219)	0	219	0	0	0	0	Funding to support the city deal scheme
Energy Efficiency Fund	(735)	(411)	0	(1,146)	0	0	(1,146)	Pump-prime funding for energy saving schemes
Bus Lane Enforcement	(589)	(420)	118	(891)	(185)	288	(788)	As required by the relevant legislation, net income from Bus Lane Enforcement to facilitate the objective's of the Local Transport Strategy
Property Transfer	(152)	0	23	(129)	0	27	(102)	Funding in relation to the transfer of Thomas Blake Glover House to the Council
Sub Total	(4,616)	(1,023)	1,602	(4,037)	(283)	1,436	(2,884)	

	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	Balance at 31 March 2019 £'000	Purpose of the Earmarked Reserve
General Fund Continued	(4,616)	(1,023)	1,602	(4,037)	(283)	1,436	(2,884)	
Second/Long Term Empty Homes	(6,801)	(1,503)	0	(8,304)	(2,160)	0	(10,464)	Additional income generated by reducing the discounts which is to be used towards funding affordable housing.
Mens Shed	(5)	0	0	(5)	0	5	0	Contribution to Men's Shed social club, Dyce
Community Planning	(9)	0	9	0	0	0	0	Community Planning Participatory Budgeting
Music Hall Redevelopment	(800)	0	800	0	0	0	0	To contribute towards the redevelopment of the Music hall
HMT Roof Works	(288)	0	162	(126)	0	91	(35)	HMT Roof Works
Reclaiming Social Work	(1,430)	0	1,430	0	0	0	0	Contribution towards costs of Reclaiming Social Work project
Developing Young Workforce	(66)	0	66	0	(90)	0	(90)	To prepare young adults for the transition from education to the workplace
De-risk the Council	(2,655)	0	150	(2,505)	0	2,100	(405)	Cash backing for Council guarantees to external organisations
Transformation Fund	(14,978)		3,746	(11,232)	0	4,229	(7,003)	Funding set aside towards the ongoing transformation of the Council
Investment Strategy (Digital Strategy)	(666)	0	666	0	0	0	0	ICT Digital Strategy
VS/ER	(5,976)	0	5,976	0	0	0	0	Funding set aside towards Voluntary Severance & Early Retirement
Pupil Equity Fund	0	(1,621)	0	(1,621)	(1,192)	1,618	(1,195)	Scottish Government Grant to raise attainment in Schools
18/19 RSG Redetermination	0	(1,211)	0	(1,211)	0	0	(1,211)	Scottish Government Grant carried forward
Revenue Grants Unspent	(384)	0	384	0	0	0	0	Various revenue grants that remained unspent at year end to which no repayment conditions apply
Welfare Rights/NHS Grant	(7)	0	7	0	0	0	0	To procure IT system
Community Justice Redesign Post	(20)	0	8	(12)	0	0	(12)	Ring Fenced funding for this post. Year 2 & Year 3 costs will exceed grant so this reserve will be needed to cover additional costs.
Sub Total	(38,701)	(5,358)	15,006	(29,053)	(3,725)	9,479	(23,299)	

	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	Balance at 31 March 2019 £'000	Purpose of the Earmarked Reserve
General Fund Continued	(38,701)	(5,358)	15,006	(29,053)	(3,725)	9,479	(23,299)	
Building Services IT Upgrade	(148)	0	70	(78)	0	78	0	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
Approved Project Funding	(336)	0	154	(182)	0	39	(143)	Funding carried forward to support a variety of projects, previously approved
Contribution to Environmental Body	0	0	0	0	(43)	0	(43)	To make payment to environmental body in due course, if required
Various Projects 2019/20	0	0	0	0	(1,231)	0	(1,231)	Provide funding to support a variety of projects approved in the 2019/20 Budget
Total General Fund	(39,185)	(5,358)	15,230	(29,313)	(4,999)	9,596	(24,716)	

	Balance at 31 March 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	Balance at 31 March 2019 £'000	Purpose of the Earmarked Reserve
Housing Revenue Account (HRA):								
Housing repairs	(1,326)	(1,854)	1,326	(1,854)	(2,213)	1,854	(2,213)	Repairs ordered prior to the year end
House Sales - Non right to buy	(245)	(309)	246	(308)	(309)	309	(308)	One-off vacant properties sold on the open market
Total HRA	(1,571)	(2,163)	1,572	(2,162)	(2,522)	2,163	(2,521)	
Total Earmarked Reserves	(40,756)	(7,521)	16,802	(31,475)	(7,521)	11,759	(27,237)	

	General Fund £'000	HRA £'000
2017/18		
Total Transfers in during the year	(5,358)	(2,163)
Total Transfers out during the year	15,230	1,572
Net Movement in Earmarked Reserves in 2017/18	9,872	(591)

	General Fund £'000	HRA £'000
2018/19		
Total Transfers in during the year	(4,999)	(2,522)
Total Transfers out during the year	9,596	2,163
Net Movement in Earmarked Reserves in 2018/19	4,597	(359)

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 2017 £'000	Transfers In 2017/18 £'000	Transfers Out 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	Balance at 31 March 2019 £'000	Purpose of the Earmarked Reserve
Capital	(23,702)	(11,850)	23,758	(11,794)	(8,127)	11,346	(8,575)	To meet the capital expenditure and the repayment of the principal on loans
Insurance	(1,558)	(135)	354	(1,339)	(702)	125	(1,916)	To meet the cost of uninsured claims
City Improvement	(340)	(2)	6	(336)	(4)	11	(329)	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	(25,605)	(11,987)	24,118	(13,474)	(8,833)	11,482	(10,825)	

7. Expenditure and Funding Analysis

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

2017/18			2018/19			
Net Expenditure chargeable to General Fund & HRA balances £'000	Adjustments between funding & Accounting basis	Net Expenditure in the CIES £'000	Services	Net Expenditure chargeable to General Fund & HRA balances £'000	Adjustments between funding & Accounting basis	Net Expenditure in the CIES £'000
232,103	29,246	261,349	Operations	231,281	49,853	281,134
35,909	4,100	40,009	Customer	32,273	4,754	37,027
26,471	1,361	27,832	Commissioning	28,741	1,270	30,011
12,785	948	13,733	Resources	5,785	7,260	13,045
16,787	3,778	20,565	Place	13,666	9,918	23,584
3,012	6,456	9,468	Governance	2,421	227	2,648
83,323	1,404	84,727	Integration Joint Board	84,995	1,439	86,434
39,841	6,899	46,740	Corporate	34,934	8,322	43,256
(9,958)	26,581	16,623	Housing Revenue Account	(14,966)	35,594	20,628
440,273	80,773	521,046	Net Cost of Services	419,130	118,637	537,767
(407,774)	(40,269)	(448,043)	Other Income and Expenditure	(411,176)	(22,651)	(433,827)
32,499	40,504	73,003	(Surplus) or Deficit on Provision of Services	7,954	95,986	103,940
(61,784)			Opening General Fund and HRA Balance at 31 March 2018	(52,505)		
32,499			(Surplus)/deficit on General Fund and HRA Balance in Year	7,954		
(23,220)			To/From Other Statutory Reserves	(2,811)		
(52,505)			Closing General Fund and HRA Balance at 31 March 2019	(47,362)		

Note 7. Expenditure & Funding Analysis - Adjustments between Funding and Accounting Basis 2017/18

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Operations	31,526	5,611	(7,891)	29,246
Customer	3,300	1,780	(980)	4,100
Commissioning	1,128	263	(30)	1,361
Resources	2,925	914	(2,891)	948
Place	5,249	677	(2,148)	3,778
Governance	20	6,439	(3)	6,456
Integration Joint Board	435	1,137	(168)	1,404
Corporate	6,768	134	(3)	6,899
Housing Revenue Account	55,680	412	(29,511)	26,581
Net Cost of Services	107,031	17,367	(43,625)	80,773
Other Income and Expenditure from the Funding Analysis	(46,123)	6,929	(1,075)	(40,269)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit (Note 6)	60,908	24,296	(44,700)	40,504

Expenditure & Funding Analysis - Adjustments between Funding and Accounting Basis 2018/19

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Operations	49,285	5,214	(4,646)	49,853
Customer	3,385	1,515	(146)	4,754
Commissioning	1,093	278	(101)	1,270
Resources	10,039	736	(3,515)	7,260
Place	10,119	616	(817)	9,918
Governance	20	207	0	227
Integration Joint Board	522	1,080	(163)	1,439
Corporate	433	7,889	0	8,322
Housing Revenue Account	54,175	342	(18,923)	35,594
Net Cost of Services	129,071	17,877	(28,311)	118,637
Other Income and Expenditure from the Funding Analysis	(30,006)	8,597	(1,242)	(22,651)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit (Note 6)	99,065	26,474	(29,553)	95,986

8. Comprehensive Income & Expenditure Statement - Other Operating Expenditure

2017/18 £'000		2018/19 £'000
(1,273)	Gains on the disposal on non current assets	(72)
(1,273)	Total	(72)

9. Comprehensive Income & Expenditure Statement - Financing and Investment Income and Expenditure

2017/18 £'000		2018/19 £'000
45,496	Interest payable and similar charges	49,868
5,818	Pensions interest cost and expected return on pensions assets	7,600
(1,450)	Interest receivable and similar income	(1,432)
(9,695)	Income and Expenditure in relation to investment properties and changes in their fair value	(6,975)
(2,762)	Other Investment income	(1,886)
37,407	Total	47,175

10. Comprehensive Income & Expenditure Statement - Taxation and Non Specific Grant Income

2017/18 £'000		2018/19 £'000
(110,472)	Council Tax Income	(116,521)
(205,547)	Non domestic rates	(227,801)
(120,013)	Non ring-fenced government grants	(94,028)
(48,146)	Capital grants and contributions	(42,097)
0	Capital grants and receipts unapplied	(483)
(484,178)	Total	(480,930)

11. Comprehensive Income and Expenditure Statement – Material Items of Income and Expense

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. There are no material items for 2018/19.

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 2018 £'000		31 March 2019 £'000
(977,286)	Revaluation Reserve	(960,317)
721	Available for Sale Financial Instruments Reserve	0
(672,674)	Capital Adjustment Account	(622,668)
15,455	Financial Instruments Adjustment Account	15,026
310,251	Pensions Reserve	332,108
5,607	Accumulated Absences Account	5,607
(1,317,926)	Total	(1,230,244)

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.

2017/18			2018/19	
£'000	£'000		£'000	£'000
	(1,006,602)	Balance at 1 April		(977,286)
(45,978)		Upward revaluation of assets	(27,756)	
44,446		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	18,352	
	(1,532)	Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services		(9,404)
24,309		Difference between fair value depreciation and historical cost depreciation	25,858	
7,085		Accumulated gains on assets sold or scrapped	515	
	31,394			26,373
	(546)	Amounts written off to the Capital Adjustment Account		0
	(977,286)	Balance at 31 March		(960,317)

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.

As a result of the transition to IFRS 9, the Available for Sale Financial Instrument Reserve is now no longer used, therefore the balance of this reserve has been posted to the Comprehensive Income and Expenditure Statement as at 1 April 2018.

2017/18			2018/19	
£'000	£'000		£'000	£'000
	141	Balance at 1 April		721
0		IFRS 9 reclassification	(721)	
580		Downward revaluation of investments not charged to the Surplus or Deficit on the Provision of Services	0	
	580			(721)
	721	Balance at 31 March		0

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 amortisation 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.

2017/18 £'000		2018/19	
		£'000	£'000
(670,290)	Balance at 1 April		(672,674)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
70,655	Charges for depreciation and impairment on non current assets	71,843	
40,182	Revaluation losses on Property, Plant and Equipment	65,976	
11,212	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	1,411	
122,049		139,230	
(30,849)	Adjusting amounts written out of the Revaluation Reserve	(26,372)	
91,200	Net written out amount of the cost of non current assets consumed in the year		112,858
	Capital financing applied in the year:		
(4,224)	Use of the Capital Receipts Reserve to finance new capital expenditure	(400)	
(48,146)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(42,097)	
(20,561)	Loans Fund principal repayments	(14,016)	
(22,305)	Capital expenditure charged against the General Fund and HRA balances	(15,107)	
(2,611)	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements	(4,537)	
(97,847)			(76,157)
8,914	Deferred Capital Receipt		0
(4,651)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		2,822
0	Written off		5,713
0	Grant Funding		4,770
(672,674)	Balance at 31 March	0	(622,668)

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.

2017/18 £'000		2018/19	
		£'000	£'000
15,882	Balance at 1 April		15,455
	Difference between finance and other costs and income calculated on an accounting basis and finance costs calculated in accordance with statutory requirements		
(30)	Long Term Borrowing – Stepped Loans	(32)	
(397)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(397)	
(427)	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		(429)
15,455	Balance at 31 March		15,026

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.

2017/18 £'000		2018/19	
		£'000	£'000
249,767	Balance at 1 April		310,251
36,188	Remeasurements of the net defined benefit liability		(4,617)
58,421	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		62,363
(34,125)	Employer's pensions contributions and direct payments to pensioners payable in the year		(35,889)
310,251	Balance at 31 March		332,108

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.

2017/18		2018/19	
£'000		£'000	£'000
5,515	Balance at 1 April		5,607
(5,515)	Settlement or cancellation of accrual made at the end of the preceding year	(5,607)	
5,607	Amounts accrued at the end of the current year	5,607	
92	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		0
5,607	Balance at 31 March		5,607

14. Cash Flow Statement – Operating Activities

2017/18		2018/19
£'000		£'000
(73,003)	Net surplus or (deficit) on the provision of services ^	(103,940)
(73,003)		(103,940)
	Adjustment to surplus or deficit on the provision of services for non-cash movements:	
70,655	Depreciation	71,843
40,182	Impairment, downward revaluations & non sale derecognitions	65,976
470	(Increase)/Decrease in Stock	(434)
389	(Increase)/Decrease in Debtors	(14,237)
(4,217)	Increase/(Decrease) in Creditors	9,769
24,296	Movement in Pension Liability	26,474
11,211	Carrying amount of non current assets sold	1,411
(50)	Contributions to Other Reserves/Provisions	(932)
(4,651)	Movement in value of investment properties	2,822
138,285		162,692
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(48,146)	Receipt of Capital Grants and Contributions	(42,097)
(5,731)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,063)
16,609	Bond Effective Interest Rate Adjustment	13,740
(37,268)		(29,420)
28,014	Net cash flows from operating activities	29,332

^ includes the following:

2017/18		2018/19
£'000		£'000
1,450	Interest receivable	1,432
(45,496)	Interest payable	(49,868)

15. Cash Flow Statement – Investing Activities

2017/18		2018/19
£'000		£'000
(218,301)	Purchase of property, plant and equipment, investment property and intangible assets	(216,558)
42,523	Purchase/ (Sale) of short term and long term investments	53,929
6,271	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,715
(540)	Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	(652)
48,145	Capital grants and contributions received	42,097
(121,902)	Net cash flows from investing activities	(119,469)

16. Cash Flow Statement – Financing Activities

2017/18		2018/19
£'000		£'000
(29)	Other receipts from financing activities	(32)
(2,611)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts	(4,537)
(11,806)	Repayment of amounts borrowed	0
(16,609)	Bond Effective Interest Rate Adjustment	(13,740)
0	New borrowings	122,764
(31,055)	Net cash flows from financing activities	104,455

17. Cash Flow Statement – Cash and Cash Equivalents

31 March 2018		31 March 2019
£'000		£'000
47	Cash held by the Authority	39
56,155	Bank current accounts	70,481
56,202	Total cash and cash equivalents	70,520

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:

Significant Trading Operations		2016/17	2017/18	2018/19	Cumulative (Surplus) /Deficit
		£'000	£'000	£'000	£'000
Provision and Management of Car Parking Facilities Responsible for the management and operation of 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: £9.857 million.	Turnover	(8,040)	(8,397)	(7,869)	
	Expenditure	4,821	5,075	4,981	
	Interest	(91)	(124)	(213)	
	Net (Surplus)/Deficit	(3,310)	(3,446)	(3,101)	(9,857)
Letting of Industrial, Commercial and Other Properties 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: £22.571 million.	Turnover	(7,122)	(9,066)	(11,908)	
	Expenditure	1,763	4,681	2,752	
	Exceptional Items	57	(4,651)	2,822	
	Interest	(598)	(660)	(641)	
	Net (Surplus)/Deficit	(5,900)	(9,696)	(6,975)	(22,571)
Net (Surplus)/Deficit on Significant Trading Operations		(9,210)	(13,142)	(10,076)	(32,428)
Other Trading Operations		2016/17	2017/18	2018/19	Cumulative (Surplus) /Deficit
		£'000	£'000	£'000	£'000
Building and Maintenance 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 deficit over the last three financial years: £1.243 million.	Turnover	(30,601)	(29,401)	(30,264)	
	Expenditure	29,945	30,087	31,479	
	Interest	(2)	0	0	
	Net (Surplus)/Deficit	(658)	686	1,215	1,243

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.

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Net (Surplus)/Deficit on trading operations	(9,868)	(12,456)	(8,576)
Investment Properties	(5,900)	(9,696)	(6,975)
Other Investment Income	(3,986)	(2,760)	(1,886)
Net Surplus credited to Financing and Investment Income and Expenditure (note 9)	(9,886)	(12,456)	(8,861)

19. Agency Services

The Council has an agreement with Scottish Water whereby it collects water and waste water charges in conjunction with collection of Council Tax. The income received from this service in 2018/19 was £760,750 (2017/18, £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

	2017/18 £'000	2018/19 £'000
Fees payable with regard to external audit services undertaken in accordance with the Code of Practice *	410	424
Audit of financial statements of subsidiaries (Charitable Trusts) pursuant to legislation	9	9
Total	419	433
* Of the amount paid to Audit Scotland in 2018/19 £232k relates to auditor remuneration (2017/18, £226k)		

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 2018, the Council's own contributions equate to approximately 2.6%.

In 2018/19, the council paid £10.916 million to the Scottish Government in respect of teachers' pension costs, which represents 17.2% of teachers' pensionable pay. The figure for 2017/18 was £10.912 million representing 17.2% 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 Main Fund was established under the Superannuation Fund Act 1972. It is a statutory scheme and is contracted out of the Second State Pension. It 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.

Guaranteed Minimum Pension (GMP) Equalisation

In considering the potential impact of GMP equalization, the advice and responses provided by NESPF and the Council's actuarial advisors has been as follows:

- The general expectation is that a 'trigger event' is yet to occur in the Scottish Local Government Pension Scheme and our default approach will be to ignore any GMP equalization impact in the employer's 31 March 2019 IAS 19 reports.

This opinion is shared by CIPFA.

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 £'000		Scottish Teachers Superannuation Scheme £'000	
	2017/18	2018/19	2017/18	2018/19
Comprehensive Income and Expenditure Statement				
<i>Cost of Services:</i>				
Service cost comprising:				
• current service cost	45,846	46,472	0	0
• administration expenses	554	546	0	0
• past service costs	0	45	0	0
• loss from settlements / curtailments	6,203	7,700	0	0
Financing and Investment Income and Expenditure				
• net interest expense	5,064	6,854	754	746
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	57,667	61,617	754	746
<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)	(20,423)	(65,800)	0	0
• actuarial gains and losses arising on changes in demographic assumptions	45,104	0	(131)	0
• actuarial gains and losses arising on changes in financial assumptions	937	60,126	(361)	1,057
• other	11,062	0	0	0
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	94,347	55,943	262	1,803
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	(57,667)	(61,617)	(754)	(746)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
• employers' contributions payable to scheme	30,029	31,783	0	0
• retirement benefits payable to pensioners	2,369	2,406	1,727	1,700

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 £'000			Includes: Discretionary Benefits Arrangements £'000		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Present value of the defined benefit obligation	(1,434,039)	(1,545,476)	(1,660,387)	(45,082)	(46,241)	(46,084)
Fair value of plan assets	1,215,293	1,264,781	1,357,938	0	0	0
Sub total	(218,746)	(280,695)	(302,449)	(45,082)	(46,241)	(46,084)
Scottish Teachers Superannuation Scheme	(31,021)	(29,556)	(29,659)	0	0	0
Net liability arising from defined benefit obligation	(249,767)	(310,251)	(332,108)	(45,082)	(46,241)	(46,084)

The liabilities show the underlying commitments that the Council has in the long term to pay post employment (retirement) benefits. The total liability of £332.108 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 2020 is £28.4 million. Expected contributions for the Discretionary Benefit Scheme in the year to 31 March 2020 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	
	2017/18	2018/19	2017/18	2018/19
Opening fair value of scheme assets	1,215,293	1,264,781	0	0
Interest income	30,373	32,820	0	0
Remeasurement gain/(loss):				
• The return on plan assets, excluding the amount included in the net interest expense	20,423	65,800	0	0
• Other	(554)	(546)	0	0
Contributions from employer	32,398	34,189	2,325	2,361
Contributions from employees into the scheme	8,553	8,297	0	0
Benefits paid	(41,705)	(47,403)	(2,325)	(2,361)
Closing fair value of scheme assets	1,264,781	1,357,938	0	0
	Total Assets: Scottish Teachers Superannuation Scheme (All Unfunded) £'000			
	2017/18	2018/19		
Opening fair value of scheme assets	0	0		
Contributions from employer	1,727	1,700		
Benefits paid	(1,727)	(1,700)		
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 £98.621 million (2017/18, £103.785m).

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation):

	Total Liabilities: Local Government Pension Scheme £'000		Includes: Discretionary Benefits £'000	
	2017/18	2018/19	2017/18	2018/19
Opening balance at 1 April	(1,434,039)	(1,545,476)	(45,082)	(46,241)
Current service cost	(45,846)	(46,472)	0	0
Interest cost	(35,437)	(39,674)	(1,099)	(1,171)
Contributions from scheme participants	(8,553)	(8,297)	0	0
Remeasurement (gains) and losses:				
• Actuarial gains/losses arising from changes in demographic assumptions	(45,104)	0	(849)	0
• Actuarial gains/losses arising from changes in financial assumptions	(937)	(60,126)	0	(1,033)
• Other	(11,062)	0	(1,536)	0
Past service cost	0	(45)	0	0
Losses/(gains) on settlement/curtailment	(6,203)	(7,700)	0	0
Benefits paid	41,705	47,403	2,325	2,361
Closing balance at 31 March	(1,545,476)	(1,660,387)	(46,241)	(46,084)
	Total Liabilities: Scottish Teachers Superannuation Scheme (All Unfunded) £'000			
	2017/18	2018/19		
Opening balance at 1 April	(31,021)	(29,556)		
Interest cost	(754)	(746)		
Remeasurement (gains) and losses:				
• Actuarial gains/losses arising from changes in demographic assumptions	131	0		
• Actuarial gains/losses arising from changes in financial assumptions	361	(1,057)		
• Other	0	0		
Benefits paid	1,727	1,700		
Closing balance at 31 March	(29,556)	(29,659)		

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2017/18 £'000	%	Fair value of scheme assets 2018/19 £'000	%
Cash and cash equivalents	20,236	1.6%	54,996	4.1%
Equity instruments:				
• UK quoted and unquoted	246,632		238,184	
• Global quoted and unquoted	240,308		275,118	
• Global Frontier Fund	0		0	
• Pooled UK & Global	345,285		336,905	
Sub total equity	832,225	65.8%	850,207	62.6%
Bonds:				
• Corporate	15,177		16,838	
• Government	94,859		82,019	
Sub total bonds	110,036	8.7%	98,857	7.3%
Property:				
• UK Direct	89,799		99,673	
• Property funds - Global	0		0	
• Property funds - UK	2,530		0	
Sub total property	92,329	7.3%	99,673	7.3%
Private equity:				
• European	13,913		0	
• UK	3,794		78,624	
• Global	48,062		16,567	
Sub total private equity	65,769	5.2%	95,191	7.0%
Other investment funds:				
• Infrastructure	18,972		32,455	
• Diversified Growth Funds	93,594		95,191	
• Other Loan Fund	1,265		0	
• Multi Asset Credit	30,355		31,368	
Sub total other investment funds	144,186	11.4%	159,014	11.7%
Total assets	1,264,781	100.0%	1,357,938	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 2017.

The significant assumptions used by the actuary have been:

	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.7	22.9	22.7	22.9
Women	24.9	25.0	24.9	25.0
Longevity at 65 for future pensioners:				
Men	25.6	25.8	-	-
Women	27.9	28.1	-	-
Rate of inflation	2.2%	2.2%	2.3%	2.3%
Rate of increase in salaries	3.7%	3.7%	3.7%	3.7%
Rate of increase in pensions	2.3%	2.3%	2.3%	2.4%
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.4%

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)	32,399
Rate of inflation (increase by 0.1%)	31,054
Rate of increase in salaries (increase by 0.1%)	4,465
Rate for discounting scheme liabilities (increase by 0.1%)	(30,484)

23. Events after the Balance Sheet Date

The unaudited Annual Accounts were authorised for issue by the Chief Officer - Finance on 30 April 2019. 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 2019, 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 2018/19 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 2018/19 payments to 37 organisations, amounting to £11.4 million (2017/18, 25 organisations, £11.7 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 £1.414 million for this service in 2018/19 (2017/18, £1.445 million).

For 2018/19 the Council paid £33.886 million to the Pension Fund representing its employer contributions in respect of current and former employees (2017/18, £34.125 million).

Entities Controlled or Significantly Influenced by the Council

The Council has substantial interests in other entities and the relevant transactions are as follows –

	2017/18		2018/19		Debtors		Creditors	
	Receipts £'000	Payments £'000	Receipts £'000	Payments £'000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Joint Boards								
Grampian Valuation Joint Board	0	1,494	0	1,677	0	0	0	0
AECC/Mountwest Ltd	0	0	0	0	0	0	0	0
Common Good	1,658	108	1,728	208	0	0	(13,810)	(19,187)
Trust Funds	46	31	45	45	0	0	(4,009)	(4,028)
Aberdeen Sports Village	19	1,027	14	754	0	0	0	0
Sport Aberdeen	207	6,093	330	6,971	1	34	(1,590)	(2,996)
Aberdeen Heat & Power	17	3,135	19	3,245	0	0	0	0
NESTRANS	815	1,337	1,018	1,098	499	305	0	(331)
SDPA	0	173	0	95	0	0	0	0
Scotland Excel	0	141	0	140	0	0	0	0
Bon Accord Care	9	88	0	80	71	30	(11)	0
Bon Accord Support Services	1,589	29,283	1,742	29,155	4,777	5,406	(375)	(3,667)
Aberdeen City Integration Joint Board	122,954	90,030	128,878	91,869	0	2,569	(3,125)	0

The majority of these bodies form part of the Council's group accounts which are set out on pages 132 to 150.

25. Leases

Council as Lessee

Finance Leases

The Council has acquired the development at Marischal Square under a Finance Lease. The asset consisting of a hotel, retail and office units are carried as an Investment Property on the Balance Sheet. The minimum lease payments are made up of the following amounts:

Finance Lease Liabilities	31 March 2018 £'000	31 March 2019 £'000
Current	367	396
Non Current	58,425	58,029
Finance costs payable in Future Years	113,324	108,691
Minimum Lease Payments	172,116	167,116

The minimum lease payment will be payable over the following periods:	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018	31 March 2019	31 March 2018	31 March 2019
	£'000	£'000	£'000	£'000
Not later than one year	5,000	5,000	367	396
Later than one year not later than five years	20,000	20,000	1,782	1,923
Later than five years	147,116	142,116	56,643	56,106
	172,116	167,116	58,792	58,425

Operating Leases

The Council has entered into a number of land and buildings operating leases. It also leases electric vehicles. The future minimum lease payments due under non-cancellable leases in future years are:

	Land and Buildings		Electric Vehicles	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	862	409	38	19
Later than one year and not later than five years	1,052	980	23	5
Later than five years	4,475	4,525	0	0
	6,389	5,914	61	24

The Council has considered contractual 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 2018 £'000	31 March 2019 £'000
Not later than one year	733	750
Later than one year and not later than five years	1,628	1,462
	2,361	2,212

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 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	5,652	5,342	80	32
Later than one year and not later than five years	14,586	13,635	32	0
Later than five years	166,948	168,713	0	0
	187,186	187,690	112	32

26. Investment Properties

The following items of income and expenditure have been accounted for in the Comprehensive Income and Expenditure Statement:

	31 March 2018 £'000	31 March 2019 £'000
Rental and interest income from investment property	(9,726)	(12,549)
Expenses arising from investment property	4,681	2,752
Revaluation (gains)/losses	(4,651)	2,822
Net (gain)/loss	(9,696)	(6,975)

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:

	2017/18	2018/19
	£'000	£'000
Balance at start of the year	85,335	148,592
Additions	60,040	472
Disposals	(1,784)	(410)
Net gains/(losses) from fair value adjustments	4,651	(2,822)
Transfers:		
• (to)/from Property, Plant and Equipment	350	0
Balance at end of the year	148,592	145,832

27. 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 2017	608	1,887	17	10	169,934	300	172,756
Disposals	0	(274)	0	(10)	(1,172)	0	(1,456)
Revaluations	0	6	0	0	26,064	0	26,070
At 31 March 2018	608	1,619	17	0	194,826	300	197,370
Cost or valuation							
At 1 April 2018	608	1,619	17	0	194,826	300	197,370
Revaluations	0	50	0	0	271	0	321
At 31 March 2019	608	1,669	17	0	195,097	300	197,691

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 are few sales of such items which makes assessing correct valuations subject to estimation uncertainty. 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.

ii 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 was reported in the Balance Sheet. The Rawlins of London Carriage dated 1817 valued at £10,000 has now been transferred to the Grampian Transport Museum.

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 value and note, including an excellent oil canvas by Francis Bacon "Pope I – Study after Pope Innocent X by Velasquez" which was valued by Sotheby's at £70 million on 24 January 2018.

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.

28. Property, Plant and Equipment

Movements in 2017/18:

	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 2017	964,737	914,869	62,709	259,400	26,080	16,288	197,950	2,442,033	178,906
Additions	42,182	16,815	3,246	16,376	2,155	9	136,749	217,532	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	348	(33,693)	0	0	0	563	0	(32,782)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,574)	(28,578)	0	0	0	(29)	0	(55,181)	0
Derecognition – Disposals	(2,269)	0	(473)	0	0	0	0	(2,742)	0
Derecognition – Other	0	(150)	(4,558)	0	0	(96)	(4,401)	(9,205)	0
Reclassifications and Transfers	(541)	54,457	0	0	0	(5,037)	(49,770)	(891)	0
At 31 March 2018	977,883	923,720	60,924	275,776	28,235	11,698	280,528	2,558,764	178,906
Accumulated Depreciation and Impairment									
At 1 April 2017	(27,947)	(52,065)	(29,277)	(94,439)	0	0	0	(203,728)	(6,162)
Depreciation charge	(29,034)	(24,492)	(8,446)	(8,684)	0	0	0	(70,656)	(3,082)
Depreciation written out to the Revaluation Reserve	8	6,737	0	0	0	0	0	6,745	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	0	14,998	0	0	0	0	0	14,998	0
Derecognition – Disposals	120	0	379	0	0	0	0	499	0
Derecognition – Other	0	144	4,558	0	0	0	0	4,702	0
At 31 March 2018	(56,853)	(54,678)	(32,786)	(103,123)	0	0	0	(247,440)	(9,244)
Net Book Value									
At 31 March 2018	921,030	869,042	28,138	172,653	28,235	11,698	280,528	2,311,324	169,662
At 31 March 2017	936,790	862,804	33,432	164,961	26,080	16,288	197,950	2,238,305	172,744

Property, Plant and Equipment

Movements in 2018/19:

	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 2018	977,883	923,720	60,924	275,776	28,235	11,698	280,528	2,558,764	178,906
Additions	37,054	50,231	3,480	11,305	1,538	445	152,385	256,438	39,588
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(223)	(15,221)	0	0	0	(1,186)	0	(16,630)	0
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(24,180)	(43,627)	0	0	0	(7,653)	0	(75,460)	(11,550)
Derecognition – Disposals	(91)	0	(883)	0	0	(150)	0	(1,124)	0
Derecognition – Other	0	(698)	(1,312)	(2,009)	0	0	0	(4,019)	0
Reclassifications and Transfers	7,440	(3,287)	0	65,274	0	2,074	(71,108)	393	6,062
At 31 March 2019	997,883	911,118	62,209	350,346	29,773	5,228	361,805	2,718,362	213,006
Accumulated Depreciation and Impairment									
At 1 April 2018	(56,853)	(54,678)	(32,786)	(103,123)	0	0	0	(247,440)	(9,244)
Depreciation charge	(30,160)	(24,958)	(7,618)	(9,107)	0	0	0	(71,843)	(3,082)
Depreciation written out to the Revaluation Reserve	(5)	25,847	0	0	0	0	0	25,842	0
Depreciation written out to the Surplus / Deficit on the Provision of Services	167	9,321	0	0	0	0	0	9,488	0
Derecognition – Disposals	6	0	752	0	0	0	0	758	0
Derecognition – Other	0	277	1,312	2,009	0	0	0	3,598	0
Reclassifications and Transfers	0	121	0	0	0	0	0	121	0
At 31 March 2019	(86,845)	(44,070)	(38,340)	(110,221)	0	0	0	(279,476)	(12,326)
Net Book Value									
At 31 March 2019	911,038	867,048	23,869	240,125	29,773	5,228	361,805	2,438,886	200,680
At 31 March 2018	921,030	869,042	28,138	172,653	28,235	11,698	280,528	2,311,324	169,662

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 75 years
- Vehicles, Plant and Equipment – up to 20 years
- Infrastructure – up to 50 years

Capital Commitments

As at 31 March 2019, the Council has a number of ongoing and new contracts for the construction or enhancement of Property, Plant and Equipment budgeted to cost £86.85 million next year. Similar commitments as at 31 March 2018 were £310.775 million. The major projects are:

- Housing – Structural repairs & solid wall insulation - £1.448 million
- Non Housing – New Aberdeen Exhibition & Conference Centre - £44.786 million
- Non Housing – Aberdeen Western Peripheral Route - £2.405 million
- Non Housing – Planned renewal & replacement of roads infrastructure - £5.211 million
- Non Housing – Energy From Waste - £22 million
- Non Housing – New Miltimber Primary - £11 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 2019	6,130	222,944	0	0	0	10,127	0	239,201
31 March 2018	0	271,716	0	0	0	11,397	0	283,113
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	1,810,888	1,902,627	68,484	191,110	21,359	70,830	16,161	4,081,459

* 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.

29. 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
	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Capital Financing Requirement	229,807	620,591	850,398	228,168	742,685	970,853
<i>Capital investment</i>						
Property, Plant and Equipment	43,064	174,467	217,531	38,615	178,235	216,850
Heritage Assets	0	0	0	0	472	472
Assets Held for Sale	0	0	0	0	6	6
Music Hall/Aberdeen Harbour Board	0	770	770	0	4,000	4,000
Loan for National Housing Trust Initiative	0	0	0	0	0	0
<i>Sources of finance</i>						
Capital receipts	(4,555)	(129)	(4,684)	(745)	(158)	(903)
Government grants and other contributions	(11,079)	(37,067)	(48,146)	(4,764)	(37,334)	(42,098)
Sums set aside from revenue:						
• Direct revenue contributions	461	0	461	503	0	503
• Capital for Current Revenue (CFCR)	(22,496)	191	(22,305)	(14,440)	(667)	(15,107)
• Loans fund principal	(7,034)	(13,527)	(20,561)	(4,483)	(9,533)	(14,016)
• PPP liability repayments	0	(2,611)	(2,611)	0	(3,746)	(3,746)
Closing Capital Financing Requirement	228,168	742,685	970,853	242,854	873,960	1,116,814
<i>Explanation of movements in year</i>						
Increase/(Decrease) in underlying need to borrow	(1,639)	124,705	123,066	14,686	135,021	149,707
Assets acquired under PFI/PPP contracts	0	(2,611)	(2,611)	0	(3,746)	(3,746)
Increase/(decrease) in Capital Financing Requirement	(1,639)	122,094	120,455	14,686	131,275	145,961

30. 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.

Lochside Academy

The Council has entered into a 28 year PPP contract for the construction of Lochside Academy. The academy came into operation in August 2018. The model is similar to the one above however, soft facilities management (cleaning, catering and janitorial services) are delivered through the Council.

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 2019 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	3R's				Lochside Academy			
	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2019/20	5,491	2,997	6,720	15,208	342	1,233	2,224	3,799
Payable within two to five years	25,541	12,332	25,728	63,601	1,942	5,185	8,277	15,404
Payable within six to ten years	40,164	17,575	29,102	86,841	3,590	7,366	8,803	19,759
Payable within eleven to fifteen years	42,876	26,291	25,286	94,453	5,127	8,343	6,918	20,388
Payable within sixteen to twenty years	46,617	37,524	18,293	102,434	5,450	11,090	4,560	21,100
Payable within twenty one to twenty five years	35	1,032	699	1,766	5,411	11,485	1,486	18,382
Payable within twenty six to thirty years	0	0	0	0	0	0	0	0
Total	160,724	97,751	105,828	364,303	21,862	44,702	32,268	98,832

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:

	2017/18 £'000	2018/19 £'000
Balance outstanding at start of year	103,584	100,973
Additions during year	0	45,650
Payments during year	(2,611)	(4,170)
Balance outstanding at end of year	100,973	142,453

31. Assets Held for Sale

	2017/18 £'000	2018/19 £'000
Balance outstanding at start of year	5,382	6,198
Assets newly classified as held for sale:		
Property, Plant and Equipment	541	6
Revaluation gains and (losses)	1,500	(130)
Reclassifications and transfers	0	(165)
Assets sold	(1,225)	(216)
Balance outstanding at end of year	6,198	5,693

32. Inventories

	Consumable Stores & Maintenance Materials		Client Services Work In Progress		Property Acquired or Constructed for Sale		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Balance outstanding at start of year	1,601	1,137	16	12	28	25	1,645	1,174
Purchases	10,624	13,176	24,700	27,589	0	0	35,324	40,765
Recognised as an expense in the year	(11,088)	(12,481)	(24,704)	(27,601)	(3)	(25)	(35,795)	(40,107)
Balance outstanding at end of year	1,137	1,832	12	0	25	0	1,174	1,832

33. Short Term Debtors

	31 March 2018	31 March 2019
	£'000	£'000
Central government bodies	11,540	25,120
Other local authorities	2,846	3,161
NHS bodies	1,518	3,702
Public corporations and trading funds	2,362	2,935
Other entities and individuals	113,683	117,189
Gross Total	131,949	152,107
Deduct: Provision for Impairment	(54,657)	(59,949)
Net Total	77,292	92,158

34. Short Term Creditors

	31 March 2018	31 March 2019
	£'000	£'000
Central government bodies	(15,258)	(28,261)
Other local authorities	(1,211)	(1,119)
NHS bodies	(4,985)	(195)
Public corporations and trading funds	(724)	(5,511)
Other entities and individuals	(56,435)	(45,774)
Total	(78,613)	(80,860)

35. Provisions

2018/19	Note 1	Note 2	Note 3	Note 4	Total
	Compensation Payments - Voluntary Severance/Early Retirement and Equal Pay £'000	Property - Asset Management £'000	Housing Benefit Subsidy £'000	Other £'000	£'000
Balance at 1 April 2018	(3,017)	(679)	(100)	(2,641)	(6,437)
Additional provisions made in 2018/19	(7,731)	(57)	0	(102)	(7,890)
Amounts used in 2018/19	7,103	185	0	991	8,279
Unused amounts reversed in 2018/19	238	0	0	0	238
Balance at 31 March 2019	(3,407)	(551)	(100)	(1,752)	(5,810)
<i>Represented by:</i>					
Current provisions	(3,407)	0	(100)	(1,752)	(5,259)
Long term provisions	0	(551)	0	0	(551)

Notes on Provisions –**1. Compensation Payments - Equal Pay and Severance - £3.407 million**

The provision of £3 million created in 2017/18 under the terms of the Scottish Government statutory guidance (per Local Government in Scotland Act 2003) for a Voluntary Severance/Early Retirement scheme was fully utilised. A further provision of £7.7 million was created in 2018/19, of which £3.4 million relates to amounts to be paid in 2019/20.

A provision of £99,000 was created in 2017/18 for arrears of equal pay under single status legislation. This provision is no longer required and has been reversed in 2018/19.

2. Property-Asset Management - £0.551 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 2019 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 2019/20.

4. Other

- **Legal Cases - £0.708 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 2019/20.

- **HMRC - £0.091 million**

This provision relates to a potential liability from HMRC regarding VAT payments due to be agreed and settled.

- **IFRS Impairment - £0.102 million**

An impairment review undertaken in 2018/19 under the new IFRS 9 Financial instrument recognised that a provision should be made for financial assets held by the Council. These include short term investments and long term loans .

36. Contingent Assets and Liabilities

Contingent Assets

A contingent asset arises where an event takes place which 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. At 31 March 2019, the Council had material contingent assets as undernoted:

- **Marischal Square Development**

In November 2017, the Marischal Square development was completed. The Council has a contingent asset in relation to key money and development profit, which are held in escrow and payable to the Council upon the occurrence of uncertain future events, not wholly within its control.

Contingent Liabilities

At 31 March 2019 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 £127,654 in support of an overdraft facility and card guarantee facility until 31 March 2021.

- **Transition Extreme Sports Ltd**

The Council has agreed to provide a guarantee to the Bank of Scotland in respect of a maximum overdraft facility of £250,000 until 2019.

- **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.

The Council is currently part of a three-authority project in partnership with Aberdeenshire and Moray Councils to procure an energy from waste facility which will deal with all residual waste from the three authorities. The contract is expected to commence in 2019 with the facility coming on line late 2021, and will run for 20 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 Landfill Allowance Scheme in Scotland is currently suspended and it is expected that the Waste (Scotland) Regulations 2012 will take over the requirement for the control of landfilling biodegradable municipal waste. 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 Revolving Credit 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. Whilst several claims have been received, they have yet to be assessed, therefore any value is unknown and unquantifiable at this time.

- **Section 75 agreements**

Section 75 agreements (developer obligations) are frequently sought by the Council in relation to the award of planning permission. The Supreme Court's recent judgement in relation to the Strategic Transport Fund (STF), which was funded through developer obligations, has significant implications for the Council, as there are several large scale projects in development which had expected to rely on STF funding. Delivery of these projects is now at risk unless an alternative funding solution can be identified.

- **Multi Storey Blocks**

In response to the Grenfell Tower incident potential changes to fire safety within multi storey blocks may be required. The extent of such changes is unknown at this time.

- **Integration Joint Board (IJB)**

The IJB is responsible for the strategic planning of the functions delegated to it by Aberdeen City Council and NHS Grampian. The Aberdeen City IJB Integration Scheme provides the framework in which the IJB operates including information on funding and what should happen if the IJB is projecting to overspend its budget at the year-end. Whilst steps will be taken to address this, ultimately the parties to the arrangement may be potentially liable should the IJB overspend.

- **Our Generation – Solar Panels**

A contractual dispute exists in relation to this contract which may give rise to a future financial liability.

- **Public Sector Pension Reform- McLeod Judgement**

As a result of the McLeod judgement ruling in England and Wales in June 2019, regarding transitional provisions in public sector pension schemes being unlawfully age discriminatory, it is considered that this is likely to have implications for the Scottish Local Government Pension Scheme (LGPS). The government is seeking permission to appeal the judgement.

The Government Actuaries Department (GAD) were commissioned to identify the potential impact of the McLeod/Sargeant ruling, and have prepared an assessment of the potential financial impact on the England & Wales LGPS scheme. GAD have quoted that the impact on scheme liabilities of active members is in the region of 2.89%. This would have an impact of £18.8 m increase on the Council's current gross pension liabilities.

This value has not been accrued due to the uncertainty on the outcome of the government appeal against the judgement, the remedy to be agreed, and the extent to which the judgement impacts on the LGPS in Scotland.

37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2017/18 £'000	2018/19 £'000
Credited to Taxation and Non Specific Grant Income		
Total Revenue Funding Grant	325,560	321,829
Total	325,560	321,829
Credited to Services		
Department of Work and Pensions		
Housing Benefit Grant	55,491	55,580
Housing Benefit Admin Grant	702	692
Discretionary Housing Payment	159	0
Other	25	57
Grampian Health Board		
Resource Transfer	773	0
Integrated Care Funding	31,949	31,284
Other	162	314
Other Local Authorities		
Western Peripheral Route Works	2,964	17,679
Other	72	0
Scottish Government		
S27 Community Justice Grant	4,563	4,557
Pupil Equity Fund	0	4,464
Scotland's Schools for the Future Design, Build, Finance, Maintain Projects (Lochside Academy)	0	2,189
Home Insulation	674	1,903
Severe Eaather Funding	0	589
Education Maintenance	313	316
Attainment Challenge	482	296
Other	1,067	1,663
European Funding		
Hydrogen Bus Project	528	980
Civitas	267	355
Other	152	106
Home Office		
Syrian Refugee Resettlement Programme	313	442
Other	37	45
Creative Scotland		
Youth Music Initiative	383	192
Other	68	33
Sport Scotland	419	367
Heritage Lottery Fund	247	179
Transport Scotland		
Paths for All	15	300
Other	699 *	734
Total	102,524	125,316

* 2017/18 'other' has been updated to include the grant from the Scottish Legal Aid Board.

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:

	2017/18	2018/19
	£'000	£'000
Revenue Grants - Receipts in Advance		
Social Care & Wellbeing (Telecare, Kinship Care, Luggage)	6	6
Communities	3	0
Bequest / Europe Direct for Libraries	0	33
Creative Scotland – Various Projects	24	13
Education Scotland	1	0
Countryside Rangers Service	0	3
Home Office Refugee Funding	513	513
Aberdeen Art Gallery	0	1
Local Air Quality	2	0
Amped Funding	7	10
Place Partnership	11	0
Creative Learning Network	11	4
Lochside Academy - Big Lottery Co Design	0	2
Aberdeen University - Food & Fun	0	5
ELC Grant	0	2,392
Erasmus Clermont Grant	0	7
Total	578	2,989
Capital Grants - Receipts in Advance		
Gypsy Traveller Grant	103	103
Scottish Government Flood Grant	403	452
Scottish Government JIVE Funding	3,388	3,388
Early Learning & Childcare Capital Payment	1,035	8,292
Fibre Network	936	843
Regeneration Capital Grant Fund	1,977	0
Aberdeen Inspired Funding for Cars for Union Street	13	13
Total	7,855	13,091

38. 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 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Investments				
Loans and receivables	0	0	98,705	45,213
Interest in group entities	18,076	17,638	0	0
Total investments	18,076	17,638	98,705	45,213
Debtors				
Loans and receivables	8,222	7,592	0	0
Financial assets carried at contract amount	0	0	77,292	92,158
Total debtors	8,222	7,592	77,292	92,158
Borrowings				
Financial liabilities at amortised cost	(890,982)	(895,954)	(79,435)	(197,228)
Total borrowings	(890,982)	(895,954)	(79,435)	(197,228)
Other Long term Liabilities				
PPP liabilities	(97,751)	(138,223)	(3,222)	(4,230)
Total other long term liabilities	(97,751)	(138,223)	(3,222)	(4,230)
Creditors				
Financial liabilities carried at contract amount	(108)	(13)	(78,613)	(80,860)
Total creditors	(108)	(13)	(78,613)	(80,860)

Notes:

The Council undertook a £370 million Bond Issuance in 2016, 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

Income, Expense, Gains and Losses

Financial Instruments Gains/(Losses)	2017/18			2018/19		
	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	(45,496)	0	(45,496)	(50,292)	0	(50,292)
Total expense in Surplus or (Deficit) on the Provision of Services	(45,496)	0	(45,496)	(50,292)	0	(50,292)
Interest income	0	1,450	1,450	0	1,432	1,432
Total income in Surplus or (Deficit) on the Provision of Services	0	1,450	1,450	0	1,432	1,432
Net Interest	(45,496)	1,450	(44,046)	(50,292)	1,432	(48,860)

With the introduction of IFRS 9 on 1 April 2018 it has been necessary for the Council to reclassify its Financial Assets according to the business model to which they relate and conduct an impairment review to ensure impairments are made to financial assets, if required.

Table 1 below shows where the previous classifications have moved into the new classifications. Loans and Receivables includes short term investments and long term loans and are now classified as Amortised Cost as they are held solely for the purposes of repayment of principal and interest. The Available for Sale category is the interest in group entities and is now classified as Fair Value through Profit and Loss as any annual fluctuations in the value of this category will be credited/debited to the Comprehensive Income and Expenditure Statement.

Table 2 provides information regarding the impairment allowance that has been calculated. The impairment allowance for short-term investments is minimal as these investments are made with financial institutions with high credit ratings as per our Treasury Strategy and are therefore considered to be a very low risk of default. As most of the Council's long term loans are covered by standard securities or guarantees they are not assessed for impairment, the impairment considered appropriate for the remaining loans is very low. The fair value of the Available for Sale category decreased by £437k in 2018/19 and this impairment was debited to the Comprehensive Income and Expenditure Statement.

The Available for Sale Financial Instrument Reserve is now no longer used as a result of the transition to IFRS 9, therefore the value of this reserve has been posted to the Comprehensive Income and Expenditure Statement as at 1 April 2018.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements and disclosures.

	Table 1			Table 2			
	Reclassification and remeasurement of financial assets at 1 April 2018			Loss Allowances for New Classifications			
	Carrying amount brought forward at 1 April	Amortised Cost	Fair Value through Other Comprehensive Income	Fair Value through Profit and Loss	Amortised Cost	Fair Value through Other Comprehensive Income	Fair Value through Profit and Loss
Previous Classifications	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and Receivables	106,926	106,926	0	0	102	0	0
Available for Sale	18,075	0	0	18,075	0	0	437
Reclassified amounts at 1 April 2018	125,001	106,926	0	18,075	102	0	437
Available for Sale Financial Instrument Reserve	721	0	0	0	0	0	721

Fair Values of Assets and Liabilities

Financial liabilities and 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 2019 of 2.55% to 10.50% 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 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 2018					31 March 2019				
	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	(388,880)	(6,624)	(395,504)	(708,183)	(584,312)	(365,434)	(6,211)	(371,645)	(691,580)	(567,854)
LOBOs	(93,893)	(698)	(94,592)	(183,043)	(145,121)	(93,893)	(701)	(94,594)	(185,749)	(148,146)
Bond Issuance	(370,000)	0	(370,000)	(435,615)	(435,615)	(370,000)	0	(370,000)	(436,897)	(482,814)
Bond EIR	(16,609)		(16,609)	(16,609)	(16,609)	(31,429)	0	(31,429)	(31,429)	(31,429)
Bond Premium	(42,356)	0	(42,356)	(42,356)	(42,356)	(40,879)	0	(40,879)	(40,879)	(40,879)
Transfer Interest to Short Term in line with Code requirements	0	7,322	7,322	0	0	0	6,912	6,912	0	0
Transfer borrowing repayable with 12 months to Short Term in line with Code requirements	0	0	23,447	0	0	0	0	10,000	0	0
Financial Instrument Adjustments	0	0	(2,690)	0	0	0	0	(4,319)	0	0
Total Long Term Borrowing	(911,738)	0	(890,982)	(1,385,806)	(1,224,013)	(901,635)	0	(895,954)	(1,386,534)	(1,271,122)
Short term borrowing	(48,638)	(28)	(48,666)	(48,681)	(48,681)	(180,126)	(224)	(180,350)	(180,350)	(180,350)
Transfer Interest from Long Term in line with Code requirements	0	(7,322)	(7,322)	0	0	0	(6,877)	(6,877)	0	0
Transfer borrowing repayable with 12 months from Long Term in line with Code requirements	0	0	(23,447)	0	0	0	0	(10,000)	0	0
Total Short Term Borrowing	(48,638)	(7,350)	(79,435)	(48,681)	(48,681)	(180,126)	(7,101)	(197,227)	(180,350)	(180,350)

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 2019) 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 2018				31 March 2019			
	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	136,224	177	136,401	136,401	97,738	191	97,929	97,929

The above deposits are shown within Cash and Cash Equivalents and Short Term Investments in the Balance Sheet.

39. 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 £97.7m 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 2019 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:

Credit Risk A					
Estimated maximum exposure at 31 March 2018 £'000		Amount at 31 March 2019 £'000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2019 %	Estimated maximum exposure to default and uncollectability at 31 March 2019 £'000
		A	B	C	(A x C)
0	Deposits with banks and building societies	97,929	0	0	0
2,383	Customers	31,119	10.43%	10.43%	3,246
2,383					3,246

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 £31.1m is past its due date for payment. The past due amount can be analysed by age as follows:

Credit Risk B	31 March 2018 £'000	31 March 2019 £'000
Less than three months	7,454	9,853
Three to six months	3,360	1,629
Six months to one year	3,312	2,184
More than one year	12,497	17,453
	26,623	31,119

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 2018	31 March 2019
	£'000	£'000
Less than one year	82,109	201,553
Between one and two years	16,860	11,860
Between two and five years	47,550	42,550
Between five and ten years	52,803	62,803
More than ten years	712,113	702,114
	911,435	1,020,880

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 2019, 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	(996)
Impact on Surplus or Deficit on the Provision of Services	(737)
Share of overall impact debited to the HRA	(146)
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)	195,006
Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	0

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 2018/19, the average interest rates were 3.80% for capital (2017/18, 4.94%), 0.55% for revenue advances (2017/18, 0.29%) and 0.02% for expenses (2017/18, 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

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund	408,526	402,839	397,654	396,557	397,314	413,355	538,587	667,392	804,437
Trading Operations	23,257	22,678	24,282	23,083	21,283	20,486	19,207	15,107	13,083
Housing Revenue Account	185,923	193,225	196,880	196,665	196,675	193,692	189,118	187,479	202,165
Total	617,706	618,742	618,816	616,305	615,272	627,533	746,912	869,978	1,019,685

Loans Fund Revenue Account			Loans Fund Balance Sheet as at 31 March		
2017/18 £'000		2018/19 £'000	2018 £'000		2019 £'000
	Expenditure			Assets	
41,181	Interest paid to External Bodies	36,364		Advances to:	
475	Interest paid to Other Council Accounts	612	869,978	Aberdeen City Council for Capital Expenditure	1,019,685
167	General Expenses	149	2	Other Bodies	2
41,823		37,125	13,216	Rescheduled Premiums	12,820
	Income		883,196		1,032,507
	Interest & Expenses charged to Aberdeen City Council			Current Assets	
(30,379)	General Fund	(28,292)	136,200	Temporary Investments	97,700
(9,537)	Housing Revenue Account	(7,374)	205	Sundry Debtors	230
(957)	Trading Operations	(562)	1,184	Bank	635
(950)	From Temporary Investments	(897)	1,020,785		1,131,072
(41,823)		(37,125)		Less: Current Liabilities	
			76,548	Temporary Advances from Council Services	67,375
			7,335	Sundry Creditors	7,102
			83,883		74,477
			936,902	Net Assets	1,056,595
				Financed by:	
			(388,880)	Public Works Loan Board	(365,434)
			(93,893)	Market Loans	(93,893)
			(370,000)	Negotiable Bonds	(370,000)
			(42,356)	Bond Premium	(40,879)
			(16,609)	Bond EIR	(31,431)
			(2)	Stock Issue & Gas Annuities	(2)
			(25,162)	Temporary Loans	(154,956)
			(936,902)		(1,056,595)

Jonathan Belford, CPFA
Chief Officer - Finance

26 June 2019

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

2017/18		2018/19	
		£'000	£'000
	Income		
(80,819)	Dwelling Rents	(83,074)	
(3,427)	Non dwelling Rents	(3,211)	
(2,107)	Other Income	(2,127)	
(86,353)			(88,412)
	Expenditure		
981	Staff Costs	769	
981			769
	Premises Costs:		
25,316	Repairs and Maintenance	28,078	
3,056	Maintenance of amenity areas	3,179	
1,653	Bad debts written off/provisions	5,366	
1,416	Loss of rent vacant periods	1,739	
1,986	Other costs	1,563	
33,427			39,925
	Administration Costs:		
7,658	Management and Administration	7,954	
461	Other costs	834	
8,119			8,788
	Supplies and Services:		
3,608	Communal Lighting and Heating, etc.	3,923	
162	Information Technology	280	
149	Other Costs	184	
3,919			4,387

2017/18 £'000		2018/19	
		£'000	£'000
	Agencies:		
215	Contributions	200	
0	Supporting People Contribution	0	
498	Tenant's Participation/Helplines	658	
713			858
	Capital Charges:		
29,106	Depreciation	30,160	
26,574	Impairment of Non Current Assets	24,015	
55,680			54,175
102,839	Gross Expenditure		108,911
	Net Cost of HRA Services per Council's Comprehensive Income and Expenditure Statement		
16,486			20,490
137	Corporate and Democratic Core	137	
			137
16,623	Net Cost of HRA Services		20,627
(1,040)	(Gain) / Loss on Sale of HRA Non Current Assets	(158)	
9,538	Interest payable and similar charges	7,374	
(79)	Interest and investment income	(176)	
195	Pensions interest and return on assets	235	
(11,079)	Non Specific Grant Income/Contributions (Affordable Housing Contribution for Council Tax)	(4,764)	

Movement on the Housing Revenue Account Statement

2017/18 £'000		Notes	2018/19 £'000
(11,308)	Balance on the HRA at start of Year		(11,808)
14,158	(Surplus) or Deficit for the Year on HRA Income and Expenditure Statement		23,138
(14,658)	Adjustments between Accounting Basis and Funding Basis Under Statute	1	(30,901)
(500)	Net (Increase) or Decrease Before Transfers to or (from) Reserves		(7,763)
0	Transfers to or (from) Reserves	2	7,275
(500)	(Increase) or Decrease in Year on the HRA		(488)
(11,808)	Balance on the HRA at end of Year		(12,296)

Housing Revenue Account Disclosures
1. Adjustments between Accounting Basis and Funding Basis under Statute

2017/18 £'000		2018/19 £'000
1,040	Gain or (loss) on sale of HRA non-current assets	158
22,496	Capital expenditure funded by the HRA	14,440
	Transfer to/from the Capital Adjustment Account:	
(55,680)	Depreciation and Impairment	(54,175)
11,079	Capital Grants and Contributions	4,764
7,034	Repayment of Debt	4,483
(608)	HRA share of contributions to or from the Pensions Reserve	(576)
(21)	Adjustment involving the Accumulated Absences Account	0
2	Other Adjustments	5
(14,658)		(30,901)

2. Transfers (to) or from Reserves

2017/18 £'000		2018/19 £'000
0	Transfer to/(from) the General Fund	0
0	Total	0

3. Housing Stock

The Council's housing stock at 31 March 2019 was 21,974 (21,991 at 31 March 2018) in the following categories:

2017/18 Number		2018/19 Number
	Type of Property	
1,994	Sheltered Property	1,975
4,203	Cottage	4,216
8,416	Flat	8,467
2,087	Four in Block	2,080
548	Maisonette	548
2,134	Multi Storey Flat	2,154
122	Split Level Flat	122
428	Multi Storey Maisonette	427
1,330	Amenity	1,390
374	Homeless	380
21,636	Sub Total	21,759
355	Properties off the charge	215
21,991	HRA Total	21,974
	Other Assets	
1	Hostel	1
241	Garages Sites	241
2,037	Lock Up Garages	2,035
911	Parking Spaces	911
17	Travelling Peoples Sites	17
3,207		3,205

4. Rent Arrears

2017/18		2018/19
£'000		£'000
4,070	Current Tenant Arrears	5,170
1,788	Former Tenant Arrears	1,573
5,858	Total Rent Arrears	6,743

5. Impairment of Debtors

In 2018/19 an impairment of £5,754,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £817,000 from the provision in 2017/18

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 2018/19, which is set annually by the Scottish Ministers, is 48 pence. There is also a small supplement on the poundage rate of 2.6 pence for subjects with a rateable value greater than £51,000 to cover the additional costs of the Small Business Bonus Scheme. In 2017/18, the NDR poundage rate was set at 46.6 pence and the supplement was 2.6 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.

2017/18		2018/19	
£'000		£'000	£'000
(289,671)	Gross Rates Levied and Contributions in Lieu		(300,618)
	<i>Deduct:</i>		
42,918	Reliefs, remissions, etc.	44,075	
	Payment of Interest		
3,264	Write off of uncollectable debts and allowances for impairment	7,683	51,758
(243,489)	Net Non Domestic Rate Income		(248,860)
1,357	Adjustment to previous years' National Non Domestic Rates		2,031
(242,132)	Contribution to Non Domestic Rate Pool		(246,829)
(205,547)	Distribution from Non Domestic Rate Pool		(227,801)
	<i>Add:</i>		
(399)	Adjustment for Statutory Additions and others		(450)
(399)			0
	<i>Less:</i>		
399	Charity Relief adjustment		450
(205,547)	Income credited to the Comprehensive Income and Expenditure Statement *		(227,801)

* The figure for 2018/19 assumes that no excess will be retained by the Council for exceeding the Business Rates Incentivisation Scheme (BRIS) target in 2018/19.

Category	Number of Subjects	Rateable Value at 1 April 2019 £'000
Advertising	129	543
Care Facilities	115	5,899
Communications (non Formula)	34	2,207
Cultural	12	913
Education and Training	161	36,160
Garages and Petrol Stations	208	5,193
Health Medical	130	16,682
Hotels etc	349	24,238
Industrial Subjects including Factories Warehouses & Stores	1,960	146,192
Leisure, Entertainment, Caravans & Holiday Sites	205	15,039
Offices including Banks	2,894	196,703
Other	893	11,807
Petrochemical	2	792
Public Houses	157	8,153
Public Service Subjects	192	20,504
Quarries, Mines etc.	9	128
Religious	136	2,780
Shops	2,206	104,362
Sporting Subjects	84	504
Undertaking	14	2,198
Total Non Domestic Rates Subjects	9,890	600,997

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 2018/19, for Band D properties, the Council's Council Tax was frozen at £1,267.30. The full range of bandings is set out after the Council Tax Income Account.

Council Tax Income Account

2017/18		2018/19
£'000		£'000
(147,022)	Gross Assessments	(153,679)
(982)	Net band adjustments	(727)
(148,004)	Council Tax Collectable	(154,406)
	<i>Deduct:</i>	
12,350	Exemptions	13,290
83	Disabled Relief	85
13,150	Discounts	14,052
3,246	Provision for non collection	3,196
9,592	Council Tax Reduction	9,839
87	Other	73
(109,496)		(113,871)
	<i>Add:</i>	
(1,188)	Statutory Additions	(1,063)
219	Prior Year Adjustments	(1,608)
(7)	Write Ons	26
(110,472)	Net Council Tax income for the year transferred to General Fund	(116,516)

The calculation of the Council Tax Base 2018/19:

	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)			5			5	200/360	3
Band A	23,251	(3,792)	23	(3,150)	(522)	15,810	240/360	10,540
Band B	28,161	(2,588)	6	(3,364)	(476)	21,739	280/360	16,909
Band C	19,140	(1,533)	(7)	(1,760)	(336)	15,504	320/360	13,781
Band D	16,153	(2,186)	11	(1,429)	(380)	12,169	360/360	12,170
Band E	14,658	(682)	0	(1,131)	(238)	12,607	473/360	16,564
Band F	8,638	(214)	(5)	(531)	(101)	7,787	585/360	12,656
Band G	7,677	(142)	(31)	(326)	(102)	7,076	705/360	13,859
Band H	1,033	(26)	(2)	(28)	(19)	958	882/360	2,350
							Total	98,832
							Band D Equivalent Council Tax Reduction	(7,594)
							Contributions in Lieu	12
							Provision for Bad Debts (2.4%)	(2,471)
							Council Tax Base	88,779

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 2018/19 was £1,267.30 (2017/18, £1,230.39)

Property Value (£)	Band	Proportion of Band D	Council Tax Level (£)
27,000 or under	A	240/360	820.26
27,001 – 35,000	B	280/360	956.97
35,001 – 45,000	C	320/360	1,093.68
45,001 – 58,000	D	360/360	1,230.39
58,001 – 80,000	E	473/360	1,616.60
80,001 – 106,000	F	585/360	1,999.38
106,001 – 212,000	G	705/360	2,409.51
Over 212,000	H	882/360	3,014.46

Common Good Fund

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 2017	(111,107)	(68)	(111,175)
<u>Movement in Reserves during 2017/18</u>			
(Surplus) or Deficit on provision of services	(3,209)	0	(3,209)
Total Comprehensive Expenditure and Income	(3,209)	0	(3,209)
Balance at 31 March 2018 carried forward	(114,316)	(68)	(114,384)
<u>Movement in Reserves during 2018/19</u>			
(Surplus) or Deficit on provision of services	(6,163)	0	(6,163)
Total Comprehensive Expenditure and Income	(6,163)	0	(6,163)
Balance at 31 March 2019	(120,479)	(68)	(120,547)

Comprehensive Income and Expenditure Statement

2017/18 Net (Income) Expenditure £'000		2018/19		
		Gross Expenditure £'000	Gross Income £'000	Net (Income) Expenditure £'000
80	Administration Costs	125	0	125
1,245	Donations, Grants, Contributions etc.	1,263	0	1,263
142	Civic Hospitality	114	0	114
27	Funding of International Budget	39	0	39
104	Christmas Illuminations & Festivities	77	0	77
168	Civic Administration Unit	132	0	132
82	Other Projects	81	0	81
216	Miscellaneous Expenditure	226	0	226
433	Specific Projects	662	0	662
121	Duthie Park HLF	162	0	162
2,618	Cost Of Services	2,881	0	2,881
	Other Operating Expenditure:			
(5,342)	Gains/losses on the disposal of non current assets			0
	Financing and Investment Income and Expenditure:			
(3,277)	Investment property income & expenditure			(3,681)
(219)	Interest receivable and other investment income			0
(6,220)	(Surplus) or Deficit on Provision of Services			(800)
3,011	(Surplus) or Deficit on revaluation of investment property			(5,363)
(3,209)	Total Comprehensive Income and Expenditure			(6,163)

Balance Sheet

31 March 2018		31 March 2019
£'000		£'000
86,034	Investment Property	90,818
86,034	Long Term Assets	90,818
27,798	Investments in Aberdeen City Council Loans Fund	28,744
61	Investment Property Held for Sale	0
843	Short Term Debtors	1,366
28,702	Current Assets	30,110
(352)	Short Term Creditors	(381)
(352)	Current Liabilities	(381)
114,384	Net Assets	120,547
(114,316)	Common Good Fund	(120,479)
(68)	Reserve Fund	(68)
(114,384)	Total Reserves	(120,547)

Jonathan Belford, CPFA
Chief Officer - Finance

26 June 2019

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 2019 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 8 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 Aberdeen International Youth Festival Trust and the Lord Provost's Charitable 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 Bridge of Dee was wound up by the transfer of its remaining assets to the Bridge of Don Fund, which will be used for the same charitable purpose, the advancement of heritage in Aberdeen. Work is also underway on the creation of a new constitution for the Guildry.

Movement in Funds

Charity	Balance as at 31 March 2018 £'000	Transfer between Funds £'000	Revaluation of Investments £'000	Income £'000	Expenditure £'000	Balance as at 31 March 2019 £'000
EEIF	(162)	0	4	(18)	2	(174)
Guildry	(2,687)	0	(51)	(5)	12	(2,731)
Bridge of Don	(1,252)	0	(39)	1	4	(1,286)
Alexander MacDonald Bequest	(31)	0	0	(1)	1	(31)
Aberdeen Art Gallery Trust	(26)	0	0	(0)	0	(26)
Lands of Skene	(1,157)	0	(40)	(53)	53	(1,197)
Lands of Torry	(1,442)	0	76	(142)	142	(1,366)
McBey Trust	(496)	0	0	(6)	5	(497)
Total - Charitable Trusts	(7,253)	0	(50)	(224)	219	(7,308)
Non Charity	Balance as at 31 March 2018 £'000	Transfer between Funds	Revaluation of Investments	Income	Expenditure	Balance as at 31 March 2019 £'000
Educational Trusts	(1,408)	0	74	(69)	70	(1,333)
Endowment Funds						
- Educational	(785)	0	13	(88)	2	(858)
- Social Work	(331)	0	4	(37)	0	(364)
Arts & Heritage	(74)	0	0	(1)	1	(74)
Graveyards	(21)	0	0	(0)	2	(19)
Monuments	(7)	0	0	(0)	0	(7)
John Rickart	(54)	0	0	(1)	2	(53)
McBey Trust	(71)	0	0	(1)	1	(71)
Glover House Ltd	0	0	0	0	0	0
Aberdeen Japan Trust	(509)	0	0	0	8	(501)
Total - Non Charitable Trusts	(3,260)	0	91	(197)	86	(3,280)
Total	(10,513)	0	41	(421)	305	(10,588)

Investment of Funds

Charitable Trusts	Non- Charitable Trusts	Total		Charitable Trusts	Non- Charitable Trusts	Total
2017/18	2017/18	2017/18		2018/19	2018/19	2018/19
£'000s	£'000s	£'000s		£'000s	£'000s	£'000s
4,522	509	5,031	Land & Buildings	4,502	501	5,003
105	844	949	Equities - Listed	93	834	927
8	35	43	Gilt Edged Securities	7	34	41
-	238	238	Bank	-	354	354
2,354	1,704	4,058	Council Loans Fund	2,410	1,711	4,121
400	-	400	Other Investments - ACGIA	400	-	400
50	-	50	Debtors	49	-	49
(186)	(70)	(256)	Creditors	(171)	(136)	(307)
7,253	3,260	10,513		7,290	3,280	10,588
-	-	-	Share Capital	-	-	-
(4,530)	(2,669)	(7,199)	Unrestricted Funds	(4,605)	(2,714)	(7,319)
(123)	(591)	(714)	Endowment Funds	(122)	(584)	(706)
(2,600)	-	(2,600)	Designated Funds - Common Good Fund	(2,563)	-	(2,563)
-	-	-	Designated Funds - Grampian Health Board	-	-	-
(7,253)	(3,260)	(10,513)		(7,290)	(3,280)	(10,588)

Jonathan Belford, CPFA
Chief Officer - Finance

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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 2017	(87,391)	(1,405,587)	(1,492,976)	(107,628)	(1,600,604)
Movement in Reserves during 2017/18					0
(Surplus) or deficit on provision of services *	73,003	0	73,003	(1,408)	71,595
Other Comprehensive Income and Expenditure *	0	36,084	36,084	(4,721)	31,363
Total Comprehensive Income and Expenditure	73,003	36,084	109,087	(6,129)	102,958
Adjustments between accounting basis & funding basis under regulations	(43,510)	43,510	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	29,493	79,594	109,087	(6,129)	102,958
Transfers to/from Earmarked Reserves & Statutory Reserves	(8,067)	8,067	0	0	0
Increase/Decrease in Year	21,426	87,661	109,088	(6,129)	102,958
Balance at 31 March 2018 carried forward	(65,965)	(1,317,925)	(1,383,890)	(113,759)	(1,497,648)
Movement in Reserves during 2018/19					
(Surplus) or deficit on provision of services	103,940		103,940	4,175	108,115
Other Comprehensive Income and Expenditure	0	(8,962)	(8,962)	(5,512)	(14,474)
Total Comprehensive Income and Expenditure	103,940	(8,962)	94,978	(1,337)	93,640
Adjustments between accounting basis & funding basis under regulations	(96,709)	96,709	0		0
Net Increase/Decrease before Transfers to Earmarked Reserves & Statutory Reserves	7,231	87,747	94,978	(1,337)	93,640
Transfers to/from Earmarked Reserves & Statutory Reserves	64	(64)	0	0	0
Increase/Decrease in Year	7,295	87,683	94,978	(1,337)	93,640
Balance at 31 March 2019	(58,670)	(1,230,242)	(1,288,911)	(115,096)	(1,404,008)

Group Comprehensive Income and Expenditure Statement

2017/18				2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Continued Operation			
301,634	(37,308)	264,326	Operations	323,531	(39,645)	283,886
109,115	(68,583)	40,531	Customer	106,060	(68,634)	37,426
27,522	310	27,832	Commissioning	32,531	(2,520)	30,010
30,962	(17,149)	13,813	Resources	52,914	(41,115)	11,799
27,407	(6,838)	20,569	Place	31,298	(7,301)	23,997
11,651	(1,987)	9,665	Governance	3,751	(1,388)	2,363
219,815	(135,092)	84,723	Integration Joint Board	226,726	(140,291)	86,434
62,196	(13,902)	48,294	Corporate	36,111	7,145	43,256
102,473	(85,852)	16,621	Housing Revenue Account	116,789	(96,162)	20,628
892,775	(366,400)	526,375	Cost of Services	929,710	(389,911)	539,798
0	(6,615)	(6,615)	Other Operating Expenditure	0	(72)	(72)
89,617	(55,395)	34,222	Financing and Investment Income and Expenditure	97,968	(50,559)	47,409
0	(484,178)	(484,178)	Taxation and Non Specific Grant Income	0	(480,930)	(480,930)
982,392	(912,589)	69,803	(Surplus) or Deficit on Provision of Services	1,027,677	(921,471)	106,207
		1,791	Share of (surplus) or deficit on the provision of services of Associates and JV			1,908
		71,595	Group (Surplus)/Deficit			108,115
		1,021	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(14,763)
		580	(Surplus)/deficit on revaluation of available for sale financial assets			0
		30,172	Actuarial (gains)/losses on pension assets/liabilities			(4,416)
		(1,325)	Share of other Comprehensive Income and Expenditure of Associates and Joint Ventures			5,059
		915	Other (gains)/losses			(354)
		31,363	Other Comprehensive Income and Expenditure			(14,474)
		102,958	Total Comprehensive Income and Expenditure			93,640

Group Balance Sheet

31 March 2018		31 March 2019
£000		£000
2,312,593	Property ,Plant and Equipment (note xi)	2,440,454
237,203	Investment Property (note xii)	239,246
37,750	Long Term Investments and/or Investments in Associates and Joint Ventures	31,333
197,370	Heritage Assets	197,691
8,222	Long Term Debtors	7,542
2,793,138	Long Term Assets	2,916,266
98,705	Short Term Investments	45,213
1,594	Inventories	2,244
74,281	Short Term Debtors	89,889
62,245	Cash and Cash Equivalents	74,214
6,620	Assets held for Sale	6,054
243,445	Current Assets	217,614
(68,238)	Short Term Borrowing	(171,553)
(78,365)	Short Term Creditors	(83,792)
(5,758)	Provisions	(5,259)
(3,222)	PPP Short Term Liabilities	(4,230)
(579)	Capital Grants Receipts in Advance	(2,989)
(7,928)	Revenue Grants Receipts in Advance	(13,158)
(5,607)	Other Short Term Liabilities	(5,607)
(169,697)	Current Liabilities	(286,588)

Group Balance Sheet

31 March 2018		31 March 2019
£'000		£'000
(108)	Long Term Creditors	(13)
(679)	Provisions	(551)
(886,975)	Long Term Borrowing	(895,954)
(1,673)	Liabilities in Associates and Joint Ventures	(1,414)
(97,751)	PPP Long Term Liabilities	(138,223)
(58,423)	Other Long Term Liabilities	(58,029)
(323,630)	Pension Liabilities	(349,100)
(1,369,239)	Long Term Liabilities	(1,443,284)
1,497,648	Net Assets	1,404,008
(65,965)	Usable Reserves	(58,669)
(1,317,926)	Unusable Reserves	(1,230,242)
(162)	Group - Usable Reserves	2,314
(113,595)	Group - Unusable Reserves	(117,411)
(1,497,648)	Total Reserves	(1,404,008)

Jonathan Belford, CPFA
Chief Officer - Finance

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Group Cash Flow

31 March 2018 £000		31 March 2019 £000
(71,595)	Net surplus or (deficit) on the provision of services	(107,616)
138,998	Adjust net surplus or deficit on the provision of services for non cash movements	164,397
(37,268)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(29,904)
30,135	Net cash flows from Operating Activities (note 13)	26,877
(121,917)	Net cash flows from Investing Activities (note 14)	(119,363)
(31,055)	Net Cash flows from Financing Activities (note 15)	104,455
(122,837)	Net increase or (decrease) in cash and cash equivalents	11,969
185,082	Cash and Cash equivalent at the beginning of the reporting period	62,245
62,245	Cash and Cash equivalent at the end of the reporting period	74,214

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 2019, 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 2018 to 31 March 2019, 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 2018, 31 July 2018 and 31 February 2019. This means that a 11 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%. Included as Joint Ventures are Aberdeen Sports Village (the joint venture with The University of Aberdeen) and the Integration Joint Board which is consolidated as a Joint Venture with NHS Grampian.

Subsidiaries**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 £35.2 million in 2018/19 (2017/18 £36.2 million).

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 2018/19, the partners contributed £315 million in funding to the IJB (£303 million 2017/18).

Associates

Aberdeen City Council incorporates the following Associate in its group annual accounts;

Grampian Valuation Joint Board 39%

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 £115 million (2017/18, increase of £114 million).

Note iv Group Entities

The financial performance of each of the group entities included within the Group Accounts was as follows:

Subsidiaries					
Aberdeen Exhibition and Conference Centre	100	100	361	0	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	114,384	6,220	Head of Finance, Aberdeen City Council
Trust Funds	100	100	7,917	(53)	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(1,108)	(456)	Broadfold House, Broadford Road, Bridge of Don, Aberdeen AB23 8EE
Bon Accord Care Limited	100	100	(9,528)	(2,621)	Inspire Building, Beach Boulevard, Aberdeen AB24 5HP
Bon Accord Support Services Limited	100	100	(742)	109	Inspire Building, Beach Boulevard, Aberdeen AB24 5HP
Joint Ventures					
Aberdeen Sports Village Limited	50	50	36,151	(1,024)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Integration Joint Board	50	50	8,307	(2,110)	50 Frederick Street, Aberdeen AB24 5HY
Associates					
Grampian Valuation Joint Board	39	39	(3,137)	(575)	The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin IV20 1BX
For the financial year 2018/19					
	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	361	0	AECC, The Conference Centre, Bridge of Don, Aberdeen
Common Good	100	100	120,547	800	Head of Finance, Aberdeen City Council
Trust Funds	100	100	8,007	98	Head of Finance, Aberdeen City Council
Sport Aberdeen Limited	100	100	(1,544)	(156)	Broadford House, Broadford Road, Bridge of Don, Aberdeen, AB23 8EE
Bon Accord Care Limited	100	100	(12,257)	(2,853)	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Bon Accord Support Services Limited	100	100	(942)	(155)	Inspire Building, Beach Boulevard, Aberdeen, AB24 5HP
Joint Ventures					
Aberdeen Sports Village Limited	50	50	35,276	(831)	University of Aberdeen, Kings College, Old Aberdeen AB24 3FX
Integration Joint Board	50	50	5,578	(2,728)	50 Frederick Street, Aberdeen, AB24 5HY
Associates					
Grampian Valuation Joint Board	39	39	(3,626)	(489)	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 2019, AH&P Ltd made a profit of £498,677 (2017/18, £791,179 profit) and the net assets of the company were £3,646,966 (2017/18, £3,148,289). Turnover was £3,988,769 (2017/18, £3,806,071). 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 2017/18, Aberdeen City Council contributed £51,000 (2016/17, £135,000) 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 2017/18 show a surplus of £338,000 (2016/17, £384,000 deficit) 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. The accounts for 2018/19 are being prepared.

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 2018 net assets amounted to £302,132 (2016/17, £304,457) with a loss for the year of £2,325 (2016/17, £5,698 loss). The accounts for 2017/18 are being prepared. It is anticipated that there will be no significant changes as at March 2019. 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 SDPA prevents it from retaining a surplus and reserves. In 2018/19, Aberdeen City Council contributed £95,000 (2017/18, £194,000) towards the costs of the organisations. This consists of £85,000 towards the costs of the organisation and £10,000 for legal costs associated with SDPA appeal towards strategic Transport Fund.

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 2018/19, Aberdeen City Council contributed £140,311 (2017/18, £140,607) towards the cost of these services. This represents Aberdeen City Council's share at 4%.

Note vi Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

2017/18 £'000		2018/19 £'000
45,778	Interest payable and similar charges	50,088
5,818	Pensions interest cost and expected return on pensions assets	7,617
(4,916)	Interest receivable and similar income	(1,433)
(9,696)	Income and expenditure in relation to investment properties and changes in their fair value	(6,977)
(2,761)	Other investment income	(1,886)
34,223	Total	47,409

Note vii Cash Flow Statement – Group Operating Activities

2017/18 £'000		2018/19 £'000
(71,595)	* Net surplus or (deficit) on the provision of services	(107,616)
(71,595)	*	(107,616)
	Adjustment to surplus or deficit on the provision of services for non-cash movements:	
70,765	Depreciation	71,918
40,182	Impairment, downward revaluations & non sale derecognitions	65,976
421	(Increase)/Decrease in Stock	(426)
(430)	(Increase)/Decrease in Debtors	(22,003)
(4,327)	Increase/(Decrease) in Creditors	18,847
24,296	Payments to Pension fund	26,474
11,211	Carrying amount of non current assets sold	0
0	Carrying amount of written off assets	1,411
(50)	Contributions to Other Reserves / Provisions	(1,431)
(4,651)	Movement in value of investment properties	2,822
1,580	Other non-cash movements, including reversal of surplus or deficit on provision of services by associates and joint ventures	809
138,998		164,397
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:	
(48,146)	Receipt of Capital Grants and Contributions	(42,581)
(5,731)	Proceeds from the sale of PP&E, investment property and intangible assets	(1,063)
16,609	Bond EIR adjustment	13,740
(37,268)		(29,904)
30,135	Net cash flows from operating activities	26,877

Note viii Cash Flow Statement – Group Investing Activities

2017/18 £'000		2018/19 £'000
(218,316)	Purchase of property, plant and equipment, investment property and intangible assets	(216,936)
42,523	Purchase of short term and long term investments	53,929
6,271	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,715
(540)	Contribution from the Capital Receipts Reserve towards the administrative costs on non current asset disposals	(652)
0	Proceeds from short term and long term investments	42,580
48,146	Capital grants and contributions received	0
(121,917)	Net cash flows from investing activities	(119,363)

Note ix Cash Flow Statement – Group Financing Activities

2017/18 £'000		2018/19 £'000
(29)	Other receipts from financing activities	(32)
(11,806)	Repayments of short term and long term borrowing	122,764
(16,609)	Bond EIR Adjustment	(13,740)
(2,611)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4,537)
(31,055)	Net cash flows from Financing activities	104,455

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 2018 £'000		31 March 2019 £'000
47	Cash held by officers	39
62,198	Bank current accounts	74,175
62,245	Total cash and cash equivalents	74,214

Note xi Group Property, Plant and Equipment*Movements on Balances*

Movements in 2017/18:

	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 2017	964,738	916,112	63,106	259,400	26,080	16,289	197,950	2,443,674	178,906
Additions	42,182	16,830	3,246	16,376	2,155	9	136,749	217,547	0
Revaluations	(26,226)	(62,270)	0	0	0	533	0	(87,963)	0
Derecognition / Disposals	(2,269)	(151)	(5,049)	0	0	(96)	(4,401)	(11,966)	0
Transfers	(541)	54,457	0	0	0	(5,036)	(49,771)	(891)	0
At 31 March 2018	977,884	924,978	61,303	275,776	28,235	11,699	280,528	2,560,401	178,906
Accumulated Depreciation and Impairment									
At 1 April 2017	(27,947)	(52,116)	(29,503)	(94,440)	0	0	0	(204,006)	(6,162)
Depreciation Charge	(29,034)	(24,549)	(8,500)	(8,685)	0	0	0	(70,768)	(3,082)
Depreciation & Impairment written out	8	21,736	0	0	0	0	0	21,744	0
Derecognition / Disposals	120	145	4,957	0	0	0	0	5,222	0
At 31 March 2018	(56,853)	(54,784)	(33,046)	(103,125)	0	0	0	(247,808)	(9,244)
Net Book Value									
At 31 March 2018	921,031	870,194	28,257	172,651	28,235	11,699	280,528	2,312,593	169,662
At 31 March 2017	936,791	863,996	33,603	164,960	26,080	16,289	197,950	2,239,668	172,744

Movements in 2018/19:

	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 2018	977,884	924,978	61,303	275,776	28,235	11,697	280,528	2,560,400	178,906
Additions	37,054	50,463	3,627	11,305	1,538	445	152,385	256,817	39,588
Revaluations	(24,402)	(58,847)	0	0	0	(8,839)	0	(92,088)	(11,550)
Derecognition / Disposals	(91)	(698)	(2,303)	(2,009)	0	(150)	0	(5,251)	0
Transfers	7,440	(3,287)	0	65,274	0	2,074	(71,112)	389	6,062
At 31 March 2019	997,885	912,609	62,627	350,346	29,773	5,227	361,801	2,720,267	213,006
Accumulated Depreciation and Impairment									
At 1 April 2018	(56,852)	(54,784)	(33,046)	(103,125)	0	0	0	(247,807)	(9,244)
Depreciation Charge	(30,160)	(25,014)	(7,638)	(9,108)	0	0	0	(71,920)	(3,082)
Depreciation & Impairment written out	160	35,167	0	0	0	0	0	35,327	0
Derecognition / Disposals	6	279	2,171	2,009	0	0	0	4,466	0
Transfers	0	121	0	0	0	0	0	121	0
At 31 March 2019	(86,846)	(44,231)	(38,513)	(110,224)	0	0	0	(279,814)	(12,326)
Net Book Value									
At 31 March 2019	911,039	868,378	24,114	240,122	29,773	5,227	361,801	2,440,454	200,680
At 31 March 2018	921,032	870,194	28,257	172,651	28,235	11,697	280,528	2,312,593	169,662

Note xii Investment Properties

The following items of income and expense have been accounted for in the Group Comprehensive Income and Expenditure Statement:

	2017/18	2018/19
	£'000	£'000
Rental and interest income from investment property	(13,236)	(8,946)
Expenses arising from investment property	4,754	2,658
Revaluation (gains)/losses	(5,807)	2,842
Net (gain)/loss	(14,289)	(3,446)

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18	2018/19
	£'000	£'000
Balance at start of the year	176,390	237,203
Additions:		
• Purchases	60,040	472
Disposals	(1,783)	(409)
Net gains/losses from fair value adjustments	2,206	1,966
Transfers:		
• to/from Inventories	350	0
• to/from Property, Plant and Equipment	0	14
Balance at end of the year	237,203	239,246

Note xiii Loans and Trading Balances with subsidiaries as at 31 March 2018 and 2019 are as follows:

	Loans		Debtors		Creditors	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
AECC	0		0		0	
Bon Accord Care Ltd	0		71		(11)	
Bon Accord Support Services Ltd	0		4,771	5,406	(375)	(3,667)
Sport Aberdeen	(1,590)	(2,980)	1	16	(10)	(34)
Common Good	(13,810)	(19,187)	0		0	
Trust Funds	(4,009)	(4,028)	0		0	
	(19,409)	(26,195)	4,843	5,422	(396)	(3,701)

Note xiv Operating Expenditure and Income of the Subsidiaries

The operating expenditure and income of the subsidiaries have been included within Corporate Governance, Education & Childrens Services, Communities, Housing & Infrastructure, Integrated Joint Board/Social Work and Corporate & Miscellaneous.

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

2017/18	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	224	429	(2,102)	(1,673)
Associates Total	224	429	(2,102)	(1,673)
Joint Venture				
Aberdeen Sports Village Limited	512	23,718	(5,642)	18,076
Integration Joint Board	1,055	4,153	0	4,153
Joint Ventures Total	1,567	27,871	(5,642)	22,229
2018/19				
	Share of Operating (surplus)/deficit £'000	Total Assets £'000	Total Liabilities £'000	Net Assets /Liabilities £'000
Associates				
Grampian Valuation Joint Board	191	549	(1,963)	(1,414)
Associates Total	191	549	(1,963)	(1,414)
Joint Venture				
Aberdeen Sports Village Limited	416	23,194	(5,556)	17,638
Integration Joint Board	1,364	4,074	(1,285)	2,789
Joint Ventures Total	1,780	27,268	(6,841)	20,427

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

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 surplus for the year is £279,000 (2017/18, £3,589,000 deficit).

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 2018/19 BASS made a deficit of £187,000 while BAC realised a surplus of £2,614,000.

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 2017/18 was £78,000 (2016/17, £90,000).

Associates

Grampian Valuation Joint Board participates in the Local Government Pension Scheme administered by Aberdeen City Council.

Share of Associates Pension Interest Costs and Expected Return on Pension Assets

	2017/18	2018/19
	£'000	£'000
Grampian Valuation Joint Board	63	37
Total	63	37

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'.

	2017/18	2018/19
	£'000	£'000
ACC	(310,252)	(332,108)
<u>Share of Associates</u>		
Grampian Valuation Joint Board	(1,962)	(1,746)
Total	(312,214)	(333,854)

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission**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 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Balance Sheets, Consolidated Income and Expenditure Statements, Movement in Reserves Statements and Cash Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, Movement on the Housing Revenue Account Statement, National Non Domestic Rates Income Account and the Council Tax Income Account, the Common Good 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 for Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure 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 2018/19 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 for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. 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 were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is three years. 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 Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit, Risk and Scrutiny Committee.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)**Conclusions relating to going concern basis of accounting**

We have nothing to report in respect of the following information in the annual report and accounts, in relation to which the ISAs (UK) require us to report to you where the:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer – Finance has not disclosed in the financial statements any identified material uncertainties that may cast doubt about the council's ability to continue to adopt a going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the audit team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

All of these key audit matters relate to the group and the parent council. Where values are stated they are those of the parent council.

	The risk	Our response
<p>Revaluation of council dwellings, other land and buildings, surplus assets and investment properties</p> <p>(£1,924 million; 2017-18: £1,939 million)</p> <p><i>Refer to page 9 (Audit, Risk and Scrutiny Committee annual audit report) pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 to 53 (accounting policy) and</i></p>	<p>Subjective valuation:</p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom requires that where council dwellings, other land and buildings and surplus assets are subject to revaluation, their year end carrying value should reflect the current value at that date in the case of council dwellings, other land and buildings and surplus assets, and fair value in the case of investment properties.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Understanding the extent of the Council's involvement in the valuation process to assess if appropriate oversight occurred. — Assessing the approach that the Council has adopted to evaluate the risk that the carrying value of assets not subject to valuation is

pages 94 and 96 (financial disclosures).

Risk of material misstatement vs 2017-18



In respect of council dwellings, other land and buildings and surplus assets, the Council has adopted a rolling revaluation model under which all land and buildings are revalued over a five year cycle. In 2018-19 the following categories of assets have been subject to revaluation:

- Libraries.
- Waste disposal sites.
- Travellers sites.
- Secondary schools.
- Depots

In addition to those assets revalued in the year, the Council is required to satisfy itself that the carrying value of other assets not revalued in 2018-19 is not materially different from their current value in existing use.

In respect of investment properties, all such assets were revalued as at 31 March 2019.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of council dwellings, other land and buildings, surplus assets and investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for annual accounts as a whole, and possibly many

materially misstated and consider the robustness of that approach.

- Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end.

Assessing valuer's credentials:

- In relation to those assets which have been revalued during the year, critically assessing the independence, professional qualifications, competence and experience of the Council valuer.

Assessing methodology choice and benchmarking assumptions:

- Utilising our internal specialist to critically assess the methodology used by the Council's valuer by considering whether the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards.
- Challenging the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data.
- Meeting with the Council's valuer to

	<p>times that amount.</p>	<p>understand the assumptions and methodologies used in valuing the assets revalued during 2019 and the market evidence used to support the assumptions.</p> <ul style="list-style-type: none"> — Challenging the Council's assessment of why it considers that the land and buildings not revalued in 2019 are not materially misstated, by reference to market evidence relevant to the assets. <p>Input assessment</p> <ul style="list-style-type: none"> — Assessing the observable inputs used in the valuations by reference to supporting evidence. <p>Our sector expertise</p> <ul style="list-style-type: none"> — Assessing, in light of our knowledge of the Group's assets and changes in market conditions, the assumptions used compared to our own expectations. <p>Our results</p> <ul style="list-style-type: none"> — We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable (2017-18: acceptable).
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<p>Retirement benefit obligation</p> <p>(Assets £1,357 million; 2017-18: £1,265 million; liabilities £1,660 million; 2017-18 £1,545 million)</p> <p><i>Refer to page 10 (Audit, Risk and Scrutiny Committee annual audit report) pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 43 to 45 (accounting policy) and pages 77 to 84 (financial disclosures).</i></p> <p><i>Risk of material misstatement vs 2017-18</i></p> <p>◀▶</p>	<p>Subjective valuation</p> <p>The Council participates in a local government defined benefit pension scheme.</p> <p>Small changes in the assumptions and estimates relating to discount rate, inflation rate, mortality/life expectancy and rate of increase in pensionable salaries which are used to value the pension obligation (before deducting scheme assets) would have a significant effect on the pension liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the pension benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole, and possibly many times that amount. The financial statements (page 84) disclose the sensitivity of the pension liability to changes in the assumptions used by the Actuary.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary to calculate the pension obligation. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> — Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. <p>Assessing transparency:</p> <ul style="list-style-type: none"> — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to the assumptions used by the actuary.
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		<p>Our results</p> <ul style="list-style-type: none"> — We found the valuation of the retirement benefit obligation to be acceptable (2017-18: acceptable).
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Change to key audit matters

We continue to perform procedures over capital expenditure. However, having considered the results of prior year testing and the nature of the capital additions, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

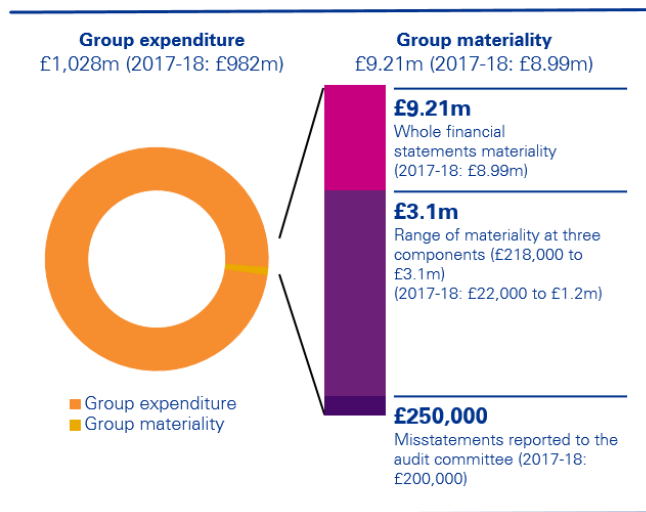
Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £9.21million (2017-18: £8.99 million), determined with reference to a benchmark of group expenditure normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%). We consider gross expenditure to be more stable than a surplus or deficit related benchmark.

Materiality for the parent company financial statements as a whole was set at £8.7 million (2017-18: £8.78 million), determined with reference to a benchmark of group expenditure normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%).

We report to the Audit, Risk and Scrutiny Committee all corrected or uncorrected identified misstatements exceeding £250,000 (2017-18: £250,000). There were no identified misstatements that warranted reporting on qualitative grounds.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)

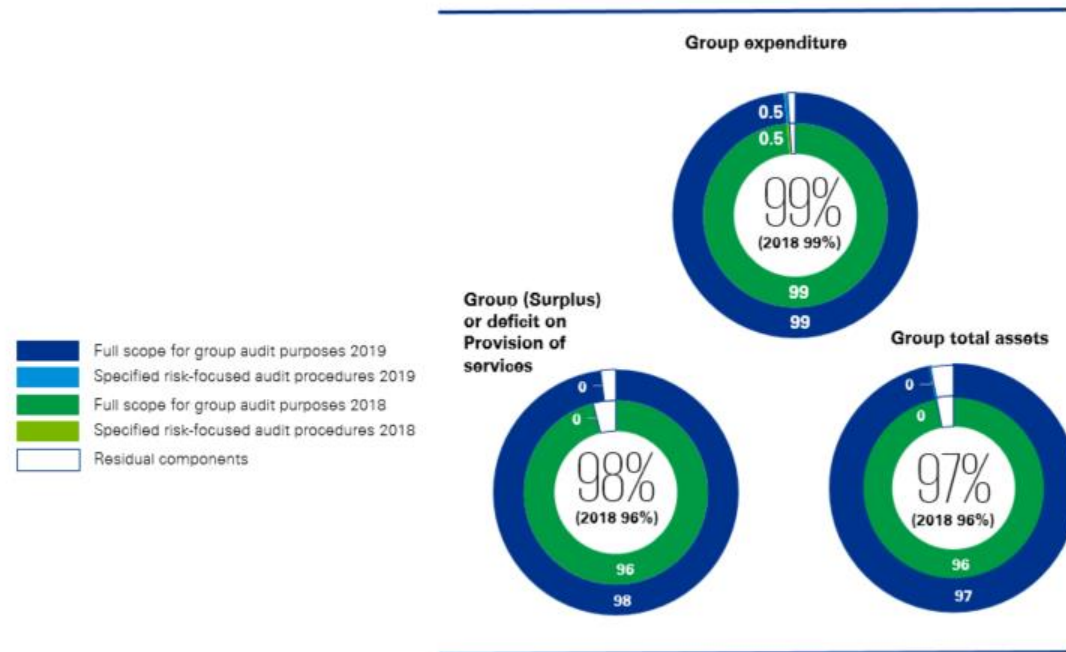


Of the group's three (2017-18: five) reporting components, we subjected two (2017-18: four) to full scope audits for group purposes and one (2017-18: one) to specified risk-focused audit procedures over pension liabilities. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated below.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The work on all of the components, including the parent Company, was performed by the Group team. The component materialities ranged from £219,000 to £3.1 million, having regard to the mix of size and risk profile of the Group across the components.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)

**Responsibilities of the Chief Officer – Finance and Audit, Risk and Scrutiny Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Chief Officer – 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 Chief Officer – Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer – Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit, Risk and Scrutiny Committee is responsible for overseeing the financial reporting process.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain 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) 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Council (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations and certain aspects of local government legislation recognising the statutory nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Council and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)
Other information in the annual report and accounts

The Chief Officer – Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, 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, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

In our opinion, the audited 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 our 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 the 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 the report has been prepared in accordance with 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 audited part of the Directors' 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 objective

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission (continued)

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice including those in respect of Best Value are set out in our Annual Audit Report.

Use of our report

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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Andrew Shaw, for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
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 2018/19.*

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*

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Charitable Trusts

Annual Report and Financial Statements

For the year ended
31 March 2019

Registered Numbers:

Gildry - SC011857
Bridge of Don Fund - SC018551
Alexander MacDonald's Bequest - SC018568
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 2018/19

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 7 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 Street,
Edinburgh
EH1 2EG

Secretary

Fraser Bell
Chief Officer - Governance,
Aberdeen City Council

Treasurer

Jonathan Belford, CPFA
Chief Officer - 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	Councillor Michael Hutchison
Councillor Yvonne Allan	Councillor Claire Imrie
Councillor Christian Allard	Councillor Freddie John
Councillor Alison Alphonse	Councillor Jenny Laing
Councillor Gillian Al-Samarai	Councillor Douglas Lumsden
Councillor Phillip Bell	Councillor Sandra MacDonald
Councillor Marie Boulton	Councillor Neil MacGregor
Councillor David Cameron	Councillor Avril MacKenzie
Councillor John Cooke	Councillor Catriona MacKenzie
Councillor Neil Copland	Councillor M. Tauqeer Malik
Councillor Bill Cormie	Councillor Tom Mason
Councillor Stephen Delaney	Councillor Alexander McLellan
Councillor Alan Donnelly	Councillor Ciaran McRae
Councillor Jackie Dunbar	Councillor Alex Nicol
Councillor Lesley Dunbar	Councillor Jim Noble
Councillor Sarah Duncan	Councillor John Reynolds
Councillor Stephen Flynn	Councillor Phillip Sellar
Councillor Gordon Graham	Councillor Jennifer Stewart
Councillor Ross Grant	Councillor Alexander Stuart
Councillor Martin Greig	Councillor Gordon Townson
Councillor Dell Henrickson	Councillor John Wheeler
Councillor Ryan Houghton	Councillor Ian Yuill
Councillor Brett Hunt	

All Trustees have served for the whole of the financial year to 31 March 2019.

All the Trustees are normally elected or re-elected at local government elections. By-elections are held when elected members vacate their positions, to elect new members, who automatically become Trustees. New members are supplied with training as part of their induction process.

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 deemed that the purpose of this trust is the advancement of heritage.

In August 2016 the trust adopted a new constitution. In August 2017 the trust agreed to provide a grant of £36,000 to digitise 1200 pages of a volume of medieval town records.

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.

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.

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 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 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 increased from £197k in 2017/18 to £227k in 2018/19. This is due to a £27k increase in interest and a £3k increase in Lands of Skene & Torry rents.

Total Expenditure reduced from £252k in 2017/18 to £224k in 2018/19. The Trusts made £42k less in donations, paid £4k less free revenue to the Common Good and Mortification Funds and administration costs fell by £18k. This was offset by Lands of Skene incurring £36k more in property costs.

The value of Investments fell by £23k in 2018/19 compared to an increase of £1.132 million in 2017/18. Lands of Torry was revalued upwards by £1.156 million last year, explaining the bulk of the movement. For 2018/19, Lands of Torry fell in value by £150k, Lands of Skene gained £130k value and the EEIF investments lost £3k in value.

Investments in the City of Aberdeen Loans Fund have decreased from £3.249 million in 2017/18 to £3.244 million in 2018/19.

This has resulted in an increase in Net Assets from £8.145 million in 2017/18 to £8.124 million in 2018/19.

The following financial statements for all 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.

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 £8.002 million which are made up of unrestricted funds of £4.125 million and designated funds of £3.877 million. 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 EEIF and Guildry. The main charitable expenditure 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.

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.

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.

STATEMENT OF THE TRUSTEES' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Trustees are responsible for preparing the Trustees' report and accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

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 June 2019.

.....
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
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 2019

		Unrestricted Funds 2018/19 £'000	Restricted Funds 2018/19 £'000	Endowment Funds 2018/19 £'000	Total Funds 2018/19 £'000	Total Funds 2017/18 £'000
	<u>Note</u>					
Income and endowments from:						
Incoming resources from generated funds						
Donations & Legacies		0	-	-	0	1
Investments	2	<u>227</u>	-	-	<u>227</u>	<u>196</u>
Total		<u>227</u>	-	-	<u>227</u>	<u>197</u>
Expenditure on:						
Charitable Activities	3,4	<u>224</u>	-	-	<u>224</u>	<u>252</u>
Total		<u>224</u>	-	-	<u>224</u>	<u>252</u>
Net income/expenditure		3	-	-	3	(55)
Other recognised gains/(losses):						
Gains/(losses) on investment assets		(20)	-	(4)	(24)	1,142
Net movement in funds		<u>(17)</u>	-	(4)	<u>(21)</u>	<u>1,087</u>
Reconciliation of funds						
Total funds brought forward		8,024	-	121	8,145	7,058
Total funds carried forward		<u>8,007</u>	-	<u>117</u>	<u>8,124</u>	<u>8,145</u>

**Aberdeen City Council Charitable Trusts
Balance Sheet as at 31 March 2019**

	<u>Note</u>	2019 £'000	2018 £'000
Fixed assets			
Investments	5	4,602	4,634
Total fixed assets		4,602	4,634
Current assets			
Stocks and work-in-progress		1	2
Debtors	6	48	48
Investments - City of Aberdeen Loans Fund	7	3,244	3,249
Cash at bank - Guildry Investment Account		400	400
Total current assets		3,693	3,699
Liabilities			
Creditors: Amounts falling due within one year	8	(171)	(188)
		(171)	(188)
Net current assets		3,522	3,511
Net assets		8,124	8,145
The funds of the charity			
Endowment funds		122	125
Restricted income funds		-	-
		122	125
Unrestricted income funds:			
Designated Funds:			
Common Good Fund		2,563	2,600
Dr Duncan Liddel's Mortification - Professor of Mathematics		675	713
Dr Duncan Liddel's Mortification - Library of College		34	36
James Cargill Mortification - Bursary Fund		275	290
Patrick Copland's Mortification - Professor of Divinity		330	349
Unrestricted funds		4,125	4,032
Total unrestricted funds		8,002	8,020
Total charity funds	9	8,124	8,145

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 26 June 2019.

.....
Douglas Lumsden

Aberdeen City Council Charitable Trusts
Statement of Cash Flows
For the year ended 31 March 2019

<u>Note</u>	Total Funds £'000	Prior Year Funds £'000
Net cash used in operating activities	(242)	(270)
Cash Flows from investing activities		
Dividends, interest and rents from investments	227	197
Proceeds from sale of investments	10	10
Net cash provided by investing activities	237	207
Change in cash and cash equivalents in the year	(5)	(63)
Cash and cash equivalents brought forward	3,649	3,712
Cash and cash equivalents carried forward	3,644	3,649

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2019

1 - Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention, 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 102 published September 2016.

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 £31k at 31 March 2019 and plans to expend remaining trust funds on subscriptions to on-line music services. When funds have been expended the trust will be wound up.

Recognition of revenue and expenditure

All income and expenditure due to be paid or received in respect of the year ended 31 March 2019 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.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2019

1 - Accounting policies (continued)

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.

Resources expended

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 based on 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

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.

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2019

1 - Accounting policies (continued)

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 because 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 2019**

	2019 £'000	2018 £'000
2 INVESTMENT INCOME		
Interest receivable	56	29
Rent from Investment Properties	171	167
	<u>227</u>	<u>196</u>
3 CHARITABLE ACTIVITIES		
Donations and expenditures	6	50
Payments to Beneficiaries:		
Common Good Fund	67	74
Dr Duncan Liddel's Mortification - Professor of Mathematics	36	34
Dr Duncan Liddel's Mortification - Library of College	2	2
James Cargill Mortification - Bursary Fund	15	14
Patrick Copland's Mortification - Professor of Divinity	17	17
Property costs	45	8
	<u>188</u>	<u>199</u>
4 GOVERNANCE COSTS		
Accounting and administration	27	44
Audit Fee	9	9
	<u>36</u>	<u>53</u>

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2019

	2019	2018
	£'000	£'000
5 TANGIBLE FIXED ASSETS		
Market Value at 1 April	4,634	3,502
Net investment (losses)/gains	(22)	1,142
Disposals	(10)	(10)
Market Value at 31 March	<u>4,602</u>	<u>4,634</u>
Investments at market value Comprised:		
Investment Properties	4,502	4,522
Gilts	7	7
Equities	93	105
	<u>4,602</u>	<u>4,634</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>48</u>	<u>48</u>
7 INVESTMENTS HELD AS CURRENT ASSETS		
City of Aberdeen Loan Funds	<u>3,244</u>	<u>3,249</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	171	185
Short Term Loan - Aberdeen City Council	-	3
	<u>171</u>	<u>188</u>

9 ANALYSIS OF NET ASSETS IN FUNDS	Tangible fixed assets	Current assets (liabilities)	Total	Total
	£'000	£'000	£'000	£'000
Unrestricted funds	4,602	3,522	8,124	8,145

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 2019

	2019	2018
	£'000	£'000
11 RELATED PARTY TRANSACTIONS		
Aberdeen City Council provides the accounting services for the trust for which a management fee is charged.	<u>35</u>	<u>35</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)	(21)	1,088
Adjustments for:		
(Gains)/losses on investments	24	(1,143)
Dividends, interest and rents from investments	(227)	(197)
Decrease/(increase) in stocks	1	(2)
Decrease/(increase) in debtors	(0)	2
Increase/(decrease) in creditors	<u>(19)</u>	<u>(18)</u>
Net cash provided by (used in) operating activities	<u>(242)</u>	<u>(270)</u>
13 ANALYSIS OF CASH AND CASH EQUIVALENTS		
Investments - City of Aberdeen Loans Fund	3,244	3,249
Cash at bank - Guildry Investment Account	<u>400</u>	<u>400</u>
	<u>3,644</u>	<u>3,649</u>

Aberdeen City Council Charitable Trusts
Notes to the Accounts
For the year ended 31 March 2019

14 ANALYSIS OF CHARITABLE TRUSTS

		Individual Trust Balances					Balance
Charity	Balance	Transfer	Revaluation of	Income	Expenditure	as at 31	
Number	as at 1	between	Investments	£'000	£'000	March	
	April 2018	Funds	£'000	£'000	£'000	2019	
	£'000	£'000				£'000	
EEIF	SC025063	(162)	-	5	(18)	2	(173)
Guildry	SC011857	(2,685)	-	(52)	(6)	13	(2,730)
Bridge of Don	SC018551	(1,252)	-	(39)	4	1	(1,286)
Alexander MacDonald Bequest	SC018568	(31)	-	-	(0)	(0)	(31)
Aberdeen Art Gallery Trust	SC018575	(27)	-	-	(0)	0	(27)
Lands of Skene	SC018533	(3,859)	-	(130)	(53)	53	(3,989)
Lands of Torry	SC021299	(2,830)	-	150	(142)	142	(2,680)
Total		(10,846)	-	(66)	(215)	211	(10,916)

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
Charity	Balance	Transfer	Revaluation of	Income	Expenditure	as at 31	
Number	as at 1	between	Investments	£'000	£'000	March	
	April 2018	Funds	£'000	£'000	£'000	2019	
	£'000	£'000				£'000	
EEIF	SC025063	(162)	-	4	(18)	2	(174)
Guildry	SC011857	(1,018)	-	-	(13)	13	(1,018)
Bridge of Don	SC018551	(1)	-	-	(1)	1	(1)
Alexander MacDonald Bequest	SC018568	(31)	-	-	(0)	(0)	(31)
Aberdeen Art Gallery Trust	SC018575	(27)	-	-	(0)	0	(27)
Lands of Skene	SC018533	(4,076)	-	(130)	(53)	66	(4,193)
Lands of Torry	SC021299	(2,830)	-	150	(142)	142	(2,680)
Total		(8,145)	-	24	(227)	224	(8,124)

Aberdeen City Council Charitable Trusts

Notes to the Accounts

For the year ended 31 March 2019

15 ANALYSIS OF CHARITABLE TRUSTS BALANCE SHEETS

Charity Name	Charity Number	Individual Trust Balances											Total £'000
		Gilts £'000	Equities £'000	Investments £'000	Heritable Property £'000	Stock £'000	Investment Aberdeen City Council		Cash at			Provision £'000	
							Loans	Fund	Bank	Debtors	Creditors		
EEIF	SC025063	7	93	-	-	-	74	-	-	-	-	-	174
Guildry	SC011857	-	-	1,595	-	1	737	400	1	(3)	-	-	2,731
Bridge of Don	SC018551	-	-	1,197	-	-	239	-	-	-	(150)	-	1,286
Alexander McDonald Bequest	SC018568	-	-	-	-	-	31	-	-	-	-	-	31
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	26	-	-	-	-	-	26
Lands of Skene	SC018533	-	-	-	1,847	-	2,137	-	6	(1)	-	-	3,989
Lands of Torry	SC021299	-	-	-	2,655	-	-	-	41	(17)	-	-	2,679
Total		7	93	2,792	4,502	1	3,244	400	48	(21)	(150)	(150)	10,916

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 £'000
		Gilts £'000	Equities £'000	Investments £'000	Heritable Property £'000	Stock £'000	Investment Aberdeen City Council		Cash at			Provision £'000	
							Loans	Fund	Bank	Debtors	Creditors		
EEIF	SC025063	7	93	-	-	-	74	-	-	-	-	-	174
Guildry	SC011857	-	-	-	-	1	619	400	1	(3)	-	-	1,018
Bridge of Don	SC018551	-	-	-	-	-	151	-	-	-	(150)	-	1
Alexander McDonald Bequest	SC018568	-	-	-	-	-	31	-	-	-	-	-	31
Aberdeen Art Gallery Trust	SC018575	-	-	-	-	-	26	-	-	-	-	-	26
Lands of Skene	SC018533	-	-	-	1,847	-	2,343	-	6	(1)	-	-	4,195
Lands of Torry	SC021299	-	-	-	2,655	-	-	-	41	(17)	-	-	2,679
Total		7	93	-	4,502	1	3,244	400	48	(21)	(150)	(150)	8,124

Independent auditor's report to the trustees of Aberdeen City Council Charitable Trusts and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the statement of accounts of Aberdeen City Council Charitable Trusts for the year ended 31 March 2019 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 and the 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 the charities as at 31 March 2019 and of their 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 for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. 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 charities 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 Standard, 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.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Independent auditor's report to the trustees of Aberdeen City Council Charitable Trusts and the Accounts Commission (continued)

- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charities to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of 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.

In preparing the financial statements, the trustees are responsible for assessing the charities' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain 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) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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, our responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether

Independent auditor's report to the trustees of Aberdeen City Council Charitable Trusts and the Accounts Commission (continued)

the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

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.

Use of our report

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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Independent auditor's report to the trustees of Aberdeen City Council Charitable Trusts and the Accounts Commission (continued)

Andrew Shaw, for and on behalf of KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2 EG

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	RIPSA Quarterly Report – Quarter 2 2019
REPORT NUMBER	GOV.19.291
DIRECTOR	Chief Executive
CHIEF OFFICER	Fraser Bell - Chief Officer
REPORT AUTHOR	Alan Thomson
TERMS OF REFERENCE	5.2

1. PURPOSE OF REPORT

- 1.1 It is a requirement, under paragraph 3.29 of the Scottish Government's Code of Practice for Covert Surveillance and Property interference, that elected members review the authority's use of covert surveillance on a quarterly basis to ensure that it is being used consistently with the local authority's policy and that that policy remains fit for purpose.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Note the update within the report.

3. BACKGROUND

- 3.1 The Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA), gives the Council powers to conduct two types of covert surveillance:
1. Directed Surveillance; and

2. the use of a Covert Human Intelligence Source (the use of an undercover officer).
- 3.2 The Council has a policy in place which governs the use and management of covert surveillance. Further, all members of staff wishing to use RIPSA, are required to undertake training prior to being able to make an application under RIPSA.
- 3.3 Various Council services use RIPSA as an investigatory tool. It is considered the “tool of last resort” in light of its intrusiveness into the privacy of the person(s) being surveyed. Council services such as Trading Standards, Environmental Health and Benefit Fraud are most likely to use RIPSA.

QUARTER 2- 2019

- 3.4 In the period from April until June 2019, there has been one authorisation for Directed Surveillance.
- 3.5 The application for Directed Surveillance was from the Trading Standards team. The surveillance was for Tobacco and Nicotine Vapour Products Test Purchasing. Test purchases for underage sale of tobacco and nicotine products are part of an enforcement initiative promoted by the Scottish Government. One part of that enforcement activity is undertaking test purchases. This can either be a random check or as part of a planned operation after complaints have been made about the shop(s) targeted. A test purchase is the only way in which Trading Standards can ascertain whether the shop is selling age restricted goods or not, and thus proves necessary to continued education and enforcement with sellers of age restricted goods such as tobacco and nicotine
- 3.6 The authorisation was cancelled within the statutory three-month period. The authorisations were executed in accordance with the Council’s policy on covert surveillance and RIPSA and have been audited by the Governance team- Legal Services as is normal practice.
- 3.7 The use of covert surveillance is restricted to certain legal purposes; crime prevention and detection, public health and public safety. The continued ability to use surveillance, in appropriate circumstances, for the investigation of offences such as the selling of age restricted goods is connected to the themes; Prosperous Place, Prosperous People and Prosperous Economy in the Local Outcome Improvement Plan (LOIP). The investigation and enforcement of regulatory laws (such as the sale of age restricted goods) by the Council, ensure that young people are protected, and communities can be assured that the Council is proactively enforcing its powers and making communities safe.
- 3.8 After an application for a covert surveillance operation is authorised by a senior officer, known as an Authorising Officer, it is sent through to the Chief Officer- Governance for logging and auditing. Members of the Governance Team within Legal Services then carry out an audit of the authorisation and raise any matters of good practice, policy or procedure with the Authorising Officer and the applicant. Officers within Legal services do not interfere with the authorisation

as that responsibility lies with the Authorising Officer. This approach has been agreed and was supported by the Surveillance Commissioner.

- 3.9 There have been no further applications for covert surveillance made or approved within this quarter.
- 3.10 There have been no changes to the Protocol and it remains fit for purpose.

TRAINING AND COMMUNICATIONS

- 3.11 Training forms a large part of RIPSAs compliance and is something which all officers must have before they are permitted to carry out covert surveillance under RIPSAs. The Council's training regime is something which has been commended on by the Surveillance Commissioner on the last three inspections.
- 3.12 The mandatory course is run by solicitors in Governance, Legal Services and a senior Trading Standards officer. It consists of theory, practice and practical application of the rules and procedures around RIPSAs, with the aim that all attendees are equipped with the skills to apply for, and have granted, a covert surveillance application and that all attendees are trained to the same standard. There have been no training sessions delivered this quarter.
- 3.13 At the end of April, there was a meeting with Authoring Officers where feedback on the authorisation process was shared and discussed with AO's and opportunities for them to access external webinar training were offered. These meetings are an opportunity for officers to share practice with each other which can be a valuable tool to good and consistent practice. The next meeting is scheduled at the start of July.
- 3.14 In April, a Bulletin was sent to all Authorising Officers and officers trained on RIPSAs. The Bulletin contained some general feedback on recent applications and authorisations. The Bulletin also included information on a recent case involving the use of surveillance powers. The next Bulletin is due to be circulated end of June.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 The Scottish Government Code of Practice on Covert Surveillance sets an expectation that elected members review and monitor the use of RIPSAs on a quarterly basis. This is also a matter which is taken into account by the Investigatory Powers Commissioner when they carry out their inspections.

- 5.2 A review of the Council's RIPSA activity by elected members provides assurance that the Council's use of RIPSA is being used consistently and that the standards set by its policy remain fit for purpose.
- 5.3 The management, knowledge and awareness of those involved with RIPSA activity was something which was commended by the Commissioner in his inspection in 2017. The reporting of RIPSA activity to Committee provides another level of scrutiny and assurance on the use of RIPSA.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	There are no financial risks arising from this report.	L	
Legal	Reporting on the use of RIPSA ensures that the Council continues to comply with the Code of Practice and that elected members continue to provide a level of scrutiny on matters of policy.	L	Quarterly reporting on RIPSA activity and the related policy to members, mitigates the risks highlighted in this section.
Employee	There are no employee risks related to this report.	L	Appropriate and mandatory training arms staff with the correct skills to carry out surveillance and thus, there is little to no risk to staff . All requests for training are met
Customer	Failure to report to and update Committee on RIPSA activity means that it would undermine public confidence in the Council and how it operates.	L	
Environment	There are no environmental risks arising from this report.		

Technology	There are no technological risks arising from this report		
Reputational	Failure to not update Committee on RIPSA activity would mean that the Council would be at risk of negative reputational damage when this is raised by the Surveillance Commissioner in their inspection.		External inspections on RIPSA activity operate every 3-4 years. This provides external assurance to the Committee of the Council's compliance with RIPSA. The Inspection Report is shared with Committee and any Action Plan created, endorsed and approved by Committee.

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	This report does not link to this theme directly. The use of RIPSA activity by the Council as an investigatory tool may have an impact on the economy as a result of enforcement action taken by services such as Trading Standard, e.g. such as in enforcing the law around counterfeit goods.
Prosperous Place	Enforcement activity undertaken by the Council by using, where appropriate, its powers under RIPSA, may have an impact on this theme by tackling the selling of counterfeit goods.

Design Principles of Target Operating Model	
	Impact of Report
Governance	Reporting to this Committee on the Councils use of RIPSA ensures compliance with the Code of Practice and gives Committee assurances that the Council's use of RIPSA is being done according to its policy.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	The purpose of this report is to update Committee on the Council's use of RIPSA. This report does not propose or endorse any changes to the Councils policy on RIPSA not its procedure and as such, an EHRA is not required.
Data Protection Impact Assessment	The purpose of this report is to update Committee on the Council's use of RIPSA. As such, a Privacy Impact Assessment is not required.
Duty of Due Regard / Fairer Scotland Duty	There is no requirement to consider the Fairer Scotland Duty as this report does not seek approval for any Strategic decisions and is merely providing Committee with an update RIPSA activity.

9. BACKGROUND PAPERS

None

10. APPENDICES (if applicable)

None

11. REPORT AUTHOR CONTACT DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit Risk and Scrutiny
DATE	26 June 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Scottish Public Services Ombudsman Decisions and Inspector of Cremations Complaint Decisions
REPORT NUMBER	CUS/19/292
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jacqui McKenzie
REPORT AUTHOR	Lucy McKenzie
TERMS OF REFERENCE	6.9

1. PURPOSE OF REPORT

- 1.1 This report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Cremations decisions made in relation to Aberdeen City Council since the last reporting cycle to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately.

2. RECOMMENDATION(S)

- 2.1 It is recommended that Committee notes the details of the report.

3. BACKGROUND

- 3.1 A report detailing all Scottish Public Services Ombudsman (SPSO) and/or Inspector of Cremations 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 14 February 2019 Committee. There were no decisions to report at the last committee cycle.

Scottish Public Services Ombudsman (SPSO) Complaint Decisions

- 3.2 The Scottish Complaints Handling Procedure (CHP) followed by Aberdeen City Council is outlined by the SPSO. Details of the CHP can be accessed at www.aberdeencity.gov.uk/complaints
- 3.3 There is one SPSO decision relating to Aberdeen City Council complaints to notify the Committee of. The complaint was upheld by the SPSO and recommendations were made. Please refer to Appendix A for further information.

Scottish Public Services Ombudsman (SPSO) Scottish Welfare Fund Review Decisions

- 3.5 The Scottish Welfare Fund is delivered by Local Councils across Scotland and offers two types of grants – Crisis Grants and Community Care Grants. Further information is available at <https://www.aberdeencity.gov.uk/services/benefits-and-advice/apply-scottish-welfare-fund>
- 3.6 There have been no SPSO Second Tier Reviews in relation to Aberdeen City Council Scottish Welfare Fund application decisions since the last reporting period.

Inspector of Cremations Decisions

- 3.7 The Inspector of Cremations responds to complaints or queries from the public about cremations. There have been no decisions by the Inspector of Cremations in relation to Aberdeen City Council cremations to date.

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

Category	Risk	Low (L), Medium (M), High (H)	Mitigation

Financial	Each time a complaint escalates it is more costly to the council than the previous stage due to the effort involved, therefore financially it is in the council's best interest to resolve complaints early in the process. There is also a risk that the council may be required to undertake additional actions as a result of an SPSO decision, including financial compensation.	L	The complaint handling procedure encourages frontline resolution whenever possible and there is guidance and training in place to support staff in effective complaint handling. The financial benefit of early resolution is highlighted to responding officers in training.
Legal	There are no legal risks associated with this report.	N/A	Not applicable
Reputational	Compliance with the Complaints Handling Procedure is audited by Audit Scotland. Non-compliance carries reputational risk. Customer perception of the council could also be negatively impacted if complaints and Scottish Welfare Fund applications are not handled correctly.	L	There is a centralised Customer Feedback Team responsible for ensuring that complaints are being handled consistently and appropriately across the council. Staff within the Scottish Welfare Fund Team receive comprehensive training to ensure applications are handled correctly and there is a robust procedure in place to review decision making when necessary.
Employee	Staff morale may be lowered as a result of a negative outcome of a SPSO decision.	L	Whilst it is not pleasant to receive a complaint, officers are encouraged to view complaints in a positive light, as a learning point going forwards.
Customer	There is a risk to the council's relationship with customers if a complaint or a Scottish	L	Support in complaint handling is available to responding officers through a variety of methods. In addition, all Stage 2 responses are also quality

	Welfare Fund application is not handled correctly.		assured to ensure that responses are appropriate. Officers responsible for Scottish Welfare Fund applications receive full training to ensure they have the necessary knowledge to undertake assessments.
Environment	There are no environmental risks associated with this report	N/A	Not applicable
Technology	There are no technological risks associated with this report.	N/A	Not applicable

7. OUTCOMES

The proposals in this report have no impact on the LOIP.

Design Principles of Target Operating Model	
	Impact of Report
Customer Service Design	The report supports a focus on the delivery of customer centric services through the scrutiny of service delivery to customers. The organisation should look to solve the core issue which led to the complaint and learn from the outcome so to reduce the potential for more / similar complaints. This leads to an improvement in customer service delivery and a reduction in time spent on handling and investigating repeat complaints, which can be a lengthy process for those involved.
Organisational Design	The report focuses on complaints outcomes which provide rich customer insight for the organisation to act upon to help transform service delivery.
Governance	The report ensures transparency around complaint and Scottish Welfare Fund application handling and provides assurances that informed decisions are being made.
Workforce	The outcomes of SPSO decisions are fed back to the relevant staff. This includes both upheld and not upheld decisions to engage staff and ensure they

	are fully informed of outcomes. The 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.
Process Design	Processes may be redesigned as a result of lessons learnt from a complaint or an SPSO decision to better meet the needs of customers.
Technology	Complaints data can help to inform decisions around the use of technology as it provides insight into the customer experience of accessing services digitally.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable.

9. BACKGROUND PAPERS

N/A

10. APPENDICES (if applicable)

Appendix A – Complaint Details and Subsequent SPSO Recommendations

11. REPORT AUTHOR CONTACT DETAILS

Lucy McKenzie
Senior Customer Experience Officer
LucyMcKenzie@aberdeencity.gov.uk
01224 346976

Appendix A - Complaint Details and Subsequent Recommendations

Complaint Received Date	SPSO Decision Date	Complaints Investigated by the SPSO	Directorate	SPSO Decision	SPSO Recommendations	Date Implemented
1 March 2018	27 March 2019	The council failed to provide the appropriate support to the client as an informal carer	Children's Social Work	Complaint upheld	<ol style="list-style-type: none"> 1) Apologise to the carer for failing to provide them with proactive support and offer the carer the opportunity of a meeting to discuss any outstanding concerns. 2) The Council should reflect on the findings of this investigation, identify appropriate further learning and feedback to staff in a supportive manner 3) The council say they have identified learning and improvement regarding how financial assistance is provided to kinship carers – the council should provide an update to the SPSO on the improvements that have been implemented. 	29 April 2019

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	26 th June 2019
EXEMPT	Yes – Appendix Paragraphs 1 & 6
CONFIDENTIAL	NO
REPORT TITLE	Equal Pay review
REPORT NUMBER	Res/19/297
DIRECTOR	Steven Whyte
CHIEF OFFICER	Isla Newcombe
REPORT AUTHOR	Neil Yacamini
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

This report seeks to provide information to Committee on an audit of Equal pay in Aberdeen City Council.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 note the contents of the report;
- 2.2 Recommends that the report be referred to the Staff Governance Committee for information; and

3. BACKGROUND

3.1 Introduction

- 3.1.1 Aberdeen City Council supports the principle of equal pay for work of equal value and recognises that we should operate a pay system that is fair and transparent. As part of this commitment to putting equal pay principles into practice we will carry out regular monitoring of the impact of our pay practices. Trade Unions raised the issue of an equal pay review at Staff Governance Committee and asked that it be reported to Audit and Risk then shared with Staff Governance Committee for information.

- 3.1.2 This audit is based on data taken in April 2019 for the financial year 2018/19 and includes pay information for all employees of the Council employed at that time and for at least part of the relevant period. Relief workers are excluded from the data.
- 3.1.3 This report considers four separate employee groups, each of which has its own negotiating body. These are Chief Officers, Teachers and related professionals, Craft Workers and the Local Government Employee group which encompasses former APT&C and Manual Workers covered by the Single Status agreement. The current workforce is 70% female and 30% male.

3.2 Gender Pay Gap Information for the Council as a whole

- 3.2.1 The current gender pay gap information for the Council as a whole is set out below and is based on the percentage difference, among our employees, between men's average hourly pay (excluding overtime) which is £16.03 ph and women's average hourly pay (excluding overtime) which is £16.12 ph.
- 3.2.2 The current gender pay gap for all Council employees is -0.56% (in favour of women). This is a negative figure as, on average, female employees are paid at a marginally higher hourly rate than male employees across the Council. This compares with a gender pay gap of -0.70% reported in the Mainstreaming Report of 2017 indicating a slight decrease in the gap (still in favour of women).
- 3.2.3 The current gender pay gap is regarded as modest and will continue to be monitored on an on-going basis.

3.3 Local Government Employees

- 3.3.1 This is the largest of the employee groups, including all those covered by the Single Status agreement. The pay grades for jobs in this group are determined by job evaluation and therefore the equal work groups used in the analysis have been based on the grades of the jobs (ie on a work rated as equivalent basis).

Workforce Distribution

Equal Work Group (Grade)		Male			Female		
	Count	Count	% of equal work Group	% of Male within overall group	Count	% of equal work Group	% of Female within overall group
G04	625	97	15.52%	5.26%	528	84.25%	10.8%
G05	11	3	27.27%	0.16%	8	72.73%	0.16%
G06	377	48	12.73%	2.6%	329	87.27%	6.73%
G07	312	161	51.6%	8.73%	151	48.4%	3.09%
G08	509	240	47.15%	13.02%	269	52.85%	5.5%
G09	1859	340	18.29%	18.44%	1519	81.71%	31.08%
G10	399	181	45.36%	9.82%	218	54.64%	4.46%
G11	1030	221	21.46%	11.98%	809	78.54%	16.55%
G12	324	109	33.64%	5.91%	215	66.36%	4.4%
G13	695	193	27.77%	10.47%	502	72.23%	10.27%
G14	304	136	44.747%	7.38%	168	55.26%	3.44%
G15	196	72	36.73%	3.9%	124	63.27%	2.54%
G16	70	32	45.71%	1.74%	38	54.29%	0.78%
G17	20	11	55%	0.6%	9	45%	0.18%
	6731	1844	27.39	100	4887	72.61	100

3.3.2 This table shows the distribution of males and females across the pay grades. Overall the group comprises 27% males and 73% females. While females are represented at all levels within the group it is evident that females form a higher proportion of the lower graded posts.

3.3.3 It should however be noted that 59.8% of all employees in the top three grades for this group are female.

Basic Pay

	Male		Female			
	Count	Avg Basic Pay	Count	Avg Basic Pay	Difference (£)	Pay Gap (%)
G04	97	17450.68	528	17449.73	0.95	0.005%
G05	3	17681.56	8	17602.19	79.37	0.45%
G06	48	17783.37	329	18027.82	-244.45	-1.38%
G07	161	18707.14	151	18687.65	19.486	0.10%
G08	240	19979.78	269	19599.62	380.16	1.90%
G09	340	21806.56	1519	21654.20	152.36	0.70%
G10	181	25142.53	218	24767.35	375.18	1.49%
G11	221	28576.28	809	28030.30	545.98	1.91%
G12	109	32768.90	215	32599.27	169.63	0.52%
G13	193	37239.87	502	36919.64	320.23	0.86%
G14	136	42518.70	168	42365.22	153.48	0.36%
G15	72	48932.40	124	48865.88	66.52	0.14%
G16	32	55996.82	38	56047.13	-50.31	-0.09%
G17	11	60845.63	9	60208.37	637.26	1.05%

3.3.4 The above table shows the average basic pay for males and females in each pay grade. The largest pay gap in any grade is 1.91% in favour of females (Grade 11). This gap is within the expected limits particularly when 80% of the group in question are female.

Craft Workers

3.3.5 Craft Workers terms and conditions are agreed nationally outwith the Equal Pay and Modernisation. Pay rates are fixed hourly rates for different posts (Mechanic, Plasterer, Chargehand Joiner etc.) with nationally agreed percentages of the fully qualified rate paid to Apprentices depending on which stage of their Apprenticeship they have reached.

Workforce Distribution

Equal Work Group	Male		Female	
	Count	% of Group	Count	% of Group
Apprentice	58	94.82	3	5.17
Chargehand	18	100	0	0
Craftworker	267	99.25	2	0.74
Labourer	39	100	0	0

Basic Pay Comparison

Equal Work Group	Male		Female		Difference (£)	Pay Gap (%)
	Count	Avg Basic Pay	Count	Avg Basic Pay		
Apprentice	55	16888.74	3	16282.65	606.09	-3.58
Chargehand	18	28271.88	0	0.00	0.00	0.00
Craftworker	265	25795.67	2	18990.92	6804.75	-26.37
Labourer	39	21422.67	0	0.00	0.00	0.00

3.3.6 An investigation into the Apprentices shows that the basic pay gap is due to the different year of apprenticeships. Comparison with male apprentices in the same trade and in the same year of apprenticeship shows that there is no actual basic pay gap with their direct comparators who are carrying out like work. The gap in craftworker pay can be attributed to the scale placing of the female employees and the hours worked.

3.3.7 Therefore it is concluded that gender is not the determining factor of basic pay levels and any gaps are due to material differences between the jobs concerned.

Teachers and Related Professionals

3.3.8 The pay for employees in the teaching profession is covered by the SNCT salary scales. These scales apply to Teachers, Education Psychologists, Quality Improvement Officers, Head Teachers & Depute Head Teachers, Music Instructors and related professional posts. For promoted posts (such as Head Teachers and Principal Teachers) a nationally agreed job sizing scheme is in place.

3.3.9 For the purpose of the review, employees were split into equal work groups based on their job responsibilities. The comparison is therefore based on like work.

Workforce Distribution

See Appendix A Table 1

Basic Pay

See Appendix A Table 2

Basic Pay Comparison

3.3.10 For a small number of groups large gaps exist.

3.3.11 Senior, Depute and Principal Education Psychologist – This is a mixed group containing a small number of employees who are at different levels within the hierarchy of the job family. The pay gap is a result of those different hierarchical levels rather than suggesting that individuals carrying out like work are paid at different levels.

3.3.12 Music instructors – There is a 7.17% pay gap. Analysis of this suggests that this variation is due to length of Service and placing within the scale points

3.3.13 Principle Teacher Primary – There is an 23.62% pay gap in this group with female employees, on average, being paid more than males. This is due to the effects of teachers job sizing and length of Service and is not related to gender.

3.3.14 Principle Teacher Secondary - The pay gap in this group is therefore predominately due to differences in the average lengths of service for male and female employees and not to gender.

Chief Officers

3.3.15 This Group has been broken down into 4 equal work groups – Directors, Statutory Officers, Heads of Service and Other Chief Officers.

3.3.16 Overall 22.2% of Chief Officers are female. As there is no direct comparator for the Chief Executive, Director or Other Chief Officer equal work groups, they will not be included in the further analysis of these jobs.

Basic Pay Comparison

The following table shows the comparison of basic pay for the group:

Equal Work Group	Male		Female			
	Count	Avg Basic Pay	Count	Avg Basic Pay	Difference (£)	Pay Gap (%)
Chief Officer	13	81552.69	4	77380.25	4172.44	5.11%

See Appendix A Table 3

3.3.17 The data therefore shows that while there is a gender pay gap of 9% between male and female there is no gender pay gap in basic pay for employees in this group who are carrying out like work.

Chief Officers Group– Summary

3.3.18 The identified pay gaps in this group are not at a level which would be a cause for concern and no further action should be required.

3.4 Summary

3.4.1 For Chief Officers and for Craft Workers there was no evidence of any significant pay gap which would require further investigation or action to close that gap.

3.4.2 While pay gaps were found for Teachers these were found to be the result of factors other than gender, for example differences in levels of experience, or as a result of teachers job sizing. There is a potential equal pay risk if elements such as higher graded duty payments are not available equally to male and female employees.

3.4.3 For Single Status employees there was no evidence of any significant gap in basic pay. There was however evidence of pay gaps for this group when considering total pay.

4. FINANCIAL IMPLICATIONS

4.1 The main financial implications arising from the equal pay review would relate to any areas which were outwith normal pay parameters which could result in additional payments being required. There has been no evidence of these occurring within the review.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	There could be an equal pay challenge if there were large differentials	L	No evidence has been found of a risk currently
Legal	If there was an issue regarding equal pay a challenge could be received	L	No evidence has been found of a risk currently
Employee	Employees could bring an equal pay challenge	L	The approved Job evaluation scheme has been implemented for roles within the organisation
Customer	N/A		
Environment	N/A		
Technology	N/A		
Reputational	N/A		

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Workforce	<p>The cost of staffing in Aberdeen City Council is one of the highest costs to the organisation. Like many councils, we employ staff to perform a range of specific functions. Our staff tend to specialise in one service area, perhaps having qualified into the field via a dedicated training course or qualification.</p> <p>This model of employment requires to be modernised to allow us to use our resources flexibly and creatively, support our ability to innovate and offer greater opportunities for progression.</p>

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Privacy Impact Assessment	Not required

<u>Children's Rights Impact Assessment/Duty of Due Regard</u>	Not applicable

9. BACKGROUND PAPERS

N/A

10. APPENDICES (if applicable)

N/A

11. REPORT AUTHOR CONTACT DETAILS

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