

ABERDEEN CITY COUNCIL

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| COMMITTEE | Audit, Risk and Scrutiny |
| DATE | 9 October 2020 |
| EXEMPT | No |
| CONFIDENTIAL | No |
| REPORT TITLE | ALEO Assurance Hub |
| REPORT NUMBER | COM-20-138 |
| 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;
- 2.2 Notes that Assurance Hub officers and ALEO Service Leads will discuss any outstanding issues identified with ALEO representatives and that the Chief Officer – Finance and Head of Commercial and Procurement will continue to meet with each ALEO regularly to provide support.

3. BACKGROUND

- 3.1 The Committee last received a report on the findings of the ALEO Assurance Hub in December 2019, at which time it was also reported that the Hub's workplan had been reviewed and that reports would be submitted to the Committee twice a year, in accordance with that workplan. In 2020, this was due to be May and October.
- 3.2 The Hub was due to review, by exception, the level of ALEO risk to the Council in May this year when the COVID-19 pandemic was at its peak. The pandemic response had implications for each ALEO as the Council and the city as a whole responded to national lockdown, including some ALEO staff being furloughed and their operations being significantly altered.

- 3.3 In recognition of this rapidly evolving picture and the cancellation of the Audit, Risk and Scrutiny Committee meeting due in May, Chief Officers met with each ALEO regularly and routinely during lockdown to maintain oversight of their financial, risk and governance profiles. This included consideration of the impact of the pandemic. At its meeting on 30 June 2020, the Urgent Business Committee considered the Financial Resilience Recovery Plan and this included an assessment of the risk that ALEO's presented the Council, and was based on that regular oversight and data collected.
- 3.4 This report provides an update, by exception, on the governance arrangements, financial management and risk management frameworks for each ALEO. The areas intended for review, as per the workplan, have been adjusted, as below at 3.5. These have been reviewed by the Assurance Hub, which continues to adopt a proportionate and risk-based approach which, in light of a continually evolving picture for ALEOs, has taken cognisance of the need to be supportive without adding additional pressures. Nonetheless, it is the role of the Hub to assure itself, and the Committee, that these frameworks are robust and, in themselves, not adding negatively to the risk profile of the ALEOs and, in turn, the Council. It is important during what is a difficult time that these stand up to scrutiny and testing.
- 3.5 The Hub met on 19th August and agreed to review the following areas, using where possible, information already held by the Council as part of the on-going support to ALEOs.

Financial Management

1. Cash Flow forecasts
2. Draft Annual Accounts
3. Any other Covid related financial data already supplied to Finance, as well as awareness of financial stewardship during this period.

Governance

1. Confirmation and evidence that Management Board have continued to meet regularly during the period Feb 2020 to present.
2. Confirmation of any significant changes to governance arrangements during the period Feb 2020 to present.

Risk Management

1. Within the context of the current operating environment, confirmation of the activities undertaken to identify, assess and mitigate the operational risks identified, including EU Exit.
 2. Within the context of the current operating environment, confirmation that existing Business Continuity Plans have been reviewed so as to mitigate the following effects of the COVID-19 pandemic:
 - Staff required to provide critical/minimum levels of service
 - Loss of staff due to Test and Protect, Shielding, Personal Illness
 - Address any single points of failure
- 3.6 **Appendix A** provides a summary of the review by the Assurance Hub. **Appendix B** provides the associated risk ratings for each ALEO, compared to ratings reported in previous reports to the Committee. The risk assessment of

the ALEOs relates heavily to the potential financial exposure presented to the Council, caused by the uncertainty of the pandemic and associated restrictions. The risk assessment is not reflective of the financial stewardship of each organisation. As set out in Appendix A, no significant concerns are raised in that regard, and each ALEOs' financial management is considered to be satisfactory. In the meantime, funding continues to be made available by the Council to support the ALEOs' activities and the ALEOs will continue to work with the Council to secure appropriate external funding.

Section 95 Officer – Statement of Assurance

3.7 In addition, below is a statement of assurance from the section 95 officer, the Chief Officer – Finance.

The review of ALEOs, has in the past, focused mainly on past performance, with financial scrutiny in respect of the year-end position, plus any subsequent financial monitoring data available. Whilst copies of draft year-end accounts have been received from the ALEOs plus a number of cash flow/financial position papers, the Covid-19 pandemic has meant that there has been a significantly greater level of scrutiny by officers, including the s.95 Officer and Head of Commercial and Procurement, on both the year-end accounts, cash flow/financial papers and in reviewing the actions taken by the ALEOs to satisfy the Council that they have made been taking all measures to both minimise costs, maximise the value of grant funding available and plan for re-opening. The ultimate aim of officers has been to ensure that any financial and reputational risks to the Council have been mitigated wherever possible.

In particular, these reviews and discussions included ensuring:

- All appropriate grants were applied for by the ALEOs;
- The appropriate numbers of staff being placed on furlough;
- ACC quarterly support funding payments were accelerated where appropriate;
- Regular meetings with ALEO and ACC officers to review updated forecasts and financial positions as the pandemic approached and government support developed;
- Any financial aid or letters of comfort required to access grant funding were provide in line with financial regulations and Urgent Business Committee instructions;
- Identification of any potential savings/cost reduction opportunities.

The re-opening scenario is different for some of these organisations, dependent upon which area they are operating within.

Aberdeen Heat and Power

This organisation has been least affected by the pandemic, as it operates in an environment which is not subject to additional re-opening criteria.

Aberdeen Performing Arts

At this time, it is unlikely that they will fully re-open until Q1 2021. On-going discussions with APA have and will continue to take place to ensure that APA is ready to recommence operations at the appropriate juncture.

Aberdeen Sports Village

The additional restrictions placed upon ASV and other sports-related venues have meant that limited re-opening is in place for some of its services. Government decisions around moving to phase 4 and potential local lockdowns and further restrictions mean there is no known definitive date in which ASV will become fully operational.

Bon Accord Care

This organisation has been affected by the pandemic, as it operates in an environment which has been subject to particular operating conditions in relation to safe ways of working.

Sport Aberdeen

The additional restrictions placed upon Sport Aberdeen have meant that limited re-opening is of some of its services. Government decisions required around moving to phase 4 and potential local lockdowns and further restrictions mean there is no known definitive date in which Sport Aberdeen will become fully operational.

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.
- 4.3 The updated financial position of the ALEO's will also be included within the Q2 report being prepared for the City Growth & Resources Committee on 28 October.

5. LEGAL IMPLICATIONS

- 5.1 Legal officers within Commercial and Procurement Services have reviewed ALEO Service Level Agreements which aim, amongst other things, to facilitate 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

| Category | Risk | Low (L) Medium (M) High (H) | Mitigation |
|-----------------------|--|-----------------------------|---|
| Strategic Risk | Ability of ALEOs to support the Council in meeting its strategic outcomes. | (M) | The Assurance Hub process mitigates against this risk by monitoring ALEO contribution to ACC strategic outcomes. This includes review of ALEO risk registers. |
| Compliance | ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes. GDPR Compliance. | (L) | <p>Commercial and Procurement Services has reviewed ALEO service level agreements to ensure they remain robust and fit for purpose.</p> <p>The Strategic Commissioning Committee has oversight of how ALEOs are achieving Council outcomes and complying with the terms of their service level agreements.</p> <p>The Hub will continue its oversight of ALEOs' approach to embedding strong governance, including audits, policies, procedures and systems to ensure that these are being reviewed and staff training is being delivered to mitigate the risk of governance failure.</p> <p>The Legal Governance Team provide support and advice to the Hub on the steps ALEOs</p> |

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| | | | are taking on GDPR compliance in order for the Hub to provide assurance to Committee on ALEOs' management of this risk. |
| Operational | Failure of ALEOs to deliver services according to agreed Service Level Agreements | M | Monitored by Strategic Commissioning Committee which has oversight of ALEO strategic business plans. |
| Financial | Financial failure of ALEOs impacting on the Council and its credit rating. | M | 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. |
| Reputational | Impact of performance or financial risk on reputation of ACC. | L | Regular reporting to this Committee from the Hub provides adequate control. |
| Environment / Climate | No direct risks arising from the report's recommendations. | | |

7. OUTCOMES

7.1 The recommendations within this report have no direct impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|-----------------------------------|--------------------------------------|
| Impact Assessment | Full impact assessment not required. |
| Data Protection Impact Assessment | Not required. |

9. BACKGROUND PAPERS

None.

10. APPENDICES

Appendix A – ALEO Assurance Hub – Summary of findings

Appendix B – Assurance Hub Risk Ratings

11. REPORT AUTHOR CONTACT DETAILS

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