

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	27 June 2017
REPORT TITLE	ALEO Operating Model
REPORT NUMBER	CG/17/073
DIRECTOR/HOS	Fraser Bell – Head of Legal and Democratic Services
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1. PURPOSE OF REPORT:-

To seek approval for a new Arms-Length External Organisation (ALEO) operating model to provide assurance to Council on the effectiveness of ALEO systems of governance, with a view to ensuring that the outcomes of those organisations are being monitored, and the risks to those organisations and the Council are mitigated and managed.

2. RECOMMENDATION(S)

It is recommended that the Committee:

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

3. BACKGROUND/MAIN ISSUES

- 3.1 An ALEO can be defined as a body separate from the council but subject to its control or influence which has been set up to deliver a service on behalf of the

Council. The Council currently has seven ALEOs of which one organisation (AECC Ltd) is in the process of being wound up. It is proposed that oversight arrangements be applied to the following organisations: Aberdeen Heat and Power; Aberdeen Performing Arts; Aberdeen Sports Village; Bon Accord Care; Garthdee Alpine Sports; and Sport Aberdeen.

- 3.2 Following an Internal Audit report presented to the Audit and Risk Committee on 16 April 2013 which recommended that Council review risk management frameworks created by ALEOs and develop a system to monitor adequacy with regular reporting to Council on the status of high level corporate risks, Council established the second iteration of the ALEO Governance Hub in June 2015.
- 3.3 The Governance Hub held 22 Hub meetings and 8 Officer and Convener pre-meetings between June 2015 and August 2016 and adopted a one size fits all, quality control approach. The standard process involved:
 - The scheduling of an officer's pre meeting to discuss areas of intended scrutiny;
 - Followed by a request for extensive documentation from ALEOs;
 - After which a Convener/Vice Convener's Pre Meeting was held to review the documentation;
 - Following this, a series of 90 minute meetings were held with each of the seven ALEOs, in which officers from Corporate Governance would individually scrutinise ALEO representatives in a formal environment on strategic matters and service performance; and
 - Thereafter detailed assurance statements and minutes were produced and submitted to the next meeting of the Audit, Risk and Scrutiny Committee.
- 3.4 The Governance Hub last reported to the Audit, Risk and Scrutiny Committee on 27 September 2016 and thereafter Committee Services conducted an ALEO 360 survey that was circulated to key stakeholders to elicit feedback on the administration and output of the Hub.

PREPARING AN OPTIONS APPRAISAL TO SUPPORT THE DEVELOPMENT OF A REFRESHED ALEO OPERATING MODEL

- 3.5 In the interim period, the Good Governance Institute (GGI) and CIPFA have both prepared reports for Council on governance and risk management and recommended that an options appraisal be drafted to inform the development of a refreshed ALEO Operating Model.
- 3.6 Four options have been developed; these are the Committee Model; Governance Hub Model; Assurance Hub Model; and External Assurance Model. An overview of each option, with a SWOT analysis has been provided within **Appendix A** beginning on page 6. **Option 3: Assurance Hub Model** has been identified as the most proportionate model to ensure the most effective use of resource and secure best value. This model balances recognition of the ALEOs' status as independent legal entities, with the

Council's need to have monitoring arrangements in place whereby ALEOs could provide assurance on governance and management of risk.

- 3.7 The Assurance Hub Model would introduce a more streamlined administrative and reporting approach that allows for a more efficient and effective use of resource by shifting to a more targeted form of scrutiny through an assessment of risk rather than a one size fits all approach. As recommended by the GGI and CIPFA, Council oversight would shift from quality control to a receipt of quality assurance for issues relating to governance and risk.
- 3.8 Option 3 would scale back the remit of the Assurance Hub to cover governance, risk management and financial management. Service directorates would be responsible for providing assurance to service committees on service performance and ensuring that ALEOs are complying with their contractual obligations to the Council.
- 3.9 Option 3 has been endorsed as the preferred option by the Governance Review Programme Board on 27 March 2017 and by the Corporate Management Team on 27 April 2017. Both bodies took the view that this approach would be the most proportionate as it would balance Council's need for assurance on ALEO governance whilst recognising ALEOs' status as independent legal entities. Both bodies also accepted that this model would make best use of limited resource by reducing the administrative workload for ALEOs and Council officers. This option also takes into account the benefit of an assurance hub in light of the Council's bond issue and creditor interest in the contingent liability of bodies within the Council's group structure.
- 3.10 The Assurance Hub model has been developed to align with CIPFA's principles of good governance and these have been outlined below:-
 - a) Behaving With Integrity** – The Hub would keep under review key corporate governance documents and approaches relating to areas such as procurement; grievance; fraud; compliance with legislation; diversity and recruitment. The ALEO Strategic Partnership would continue to support the development of effective relationships between senior ALEO and Council officers.
 - b) Ensuring Openness and Stakeholder Engagement** – ALEOs feedback was requested and received through the ALEO 360 survey, and suggestions around greater collaboration and a move to a more quality assurance model have been taken on board. The ALEO Strategic Partnership was consulted on the options appraisal on 3 May 2017 and endorsed option 3 as the preferred option.
 - c) Defining Outcomes** – The Assurance Hub's outcomes relating to the oversight of risk management, financial management and governance have been set out on page one of the Options Appraisal attached as **Appendix A**. The service directorate would be responsible for setting outcomes for ALEOs that align with Service outcomes. The review of ALEO Service Level Agreements should ensure that quantitative and qualitative outcomes were measurable and able to be presented to the service committee in a suitable format.

d) Determining Interventions Necessary – The Assurance Hub model would balance the Council’s need for assurance in terms of risk management; financial management; governance and service performance through streamlined reporting to the Hub and the relevant service committee whilst recognising that ALEOs are independent legal entities with their own governance, audit and management structures in place. ALEOs are also subject to auditing and inspection from external organisations such as the Office of the Scottish Charity Regulator (OSCR) and Companies House.

e) Developing Entity’s Capacity – Training would be provided to Councillors and officers on ALEO governance arrangements and to highlight the Hub’s strategic remit to provide oversight on risk management, financial management and governance; whilst advising that service performance would be within the remit of the relevant service committee. ALEO capacity would be enhanced through the receipt of scrutiny from Hub officers with expertise in key areas of corporate governance. The ALEO Strategic Partnership would continue to support ALEOs in terms of strategic planning; business planning; use of resource; and horizon scanning.

f) Managing Risk and Performance – Assurance on risk management, financial management and governance would be reported by exception to the Assurance Hub. This would mean that ALEOs would be asked to complete a document along the lines of the attached paper in **Appendix B** which would aim to ensure the targeted and efficient receipt of assurance; and provide ALEOs with clear sight of the Council’s expectations on the management of risk and preferred sources of assurance. Thereafter officers would evaluate the response provided by ALEOs and score their level of assurance. Officers would then report their level of assurance to the following meeting of the Audit, Risk and Scrutiny Committee. Service performance would be reported to the relevant service committee. It is recommended that all ALEOs within the Hub’s remit appear before the relevant service committee for scrutiny of their annual/business plan.

g) Implementing Good Practices in Transparency Reporting and Audit – The Assurance Hub would present their level of assurance on ALEO governance to the following meeting of the Audit, Risk and Scrutiny for public scrutiny. ALEO service performance and delivery of outcomes would be publicly reported to service committees. Service Level Agreements would be reviewed to ensure all ALEOs had appointed an independent internal auditing service. The Assurance Hub model has also made a recommendation that ALEOs give consideration to holding Board meetings in public to provide additional assurance on governance and service performance to Council and the public.

- 3.11 Further detail on all four options including a SWOT analysis, conclusions and recommendations can be found within the options appraisal attached under **Appendix A**. An example of exception reporting to support the development of a more efficient and targeted approach can be found under **Appendix B**.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report.
- 4.2 The role of the hub is to ensure that good governance and scrutiny of the Council's ALEOs provides an assurance that risks, including financial ones are identified and managed. One of the Hub's primary functions is to ensure that the Council is able to follow the public pound as outlined in Accounts Commission guidance.

5. LEGAL IMPLICATIONS

- 5.1 A review of ALEO service level agreements is currently being undertaken by solicitors within Commercial and Procurement Services. The introduction of a new approach to monitoring ALEOs would have to be taken into consideration during this review.
- 5.2 The introduction of the Hub would help to support the Council's governance arrangements with regards to the bond issue by providing assurance to creditors and external partners on the contingent liability of bodies within the council's group structure and the ability of the arm's length bodies to impact on the underlying borrowing requirement of the Council.

6. MANAGEMENT OF RISK

- 6.1 ALEOs would receive independent scrutiny from Council officers with expertise in corporate governance and these officers would evaluate their risk management arrangements and systems of governance to identify risk, monitor improvement and report their level of assurance to the Audit, Risk and Scrutiny Committee. The Hub would also provide ongoing assurance to Council and its external partners on the risk level and financial viability of its ALEOs.
- 6.2 Where Council has taken the decision to establish an ALEO, Council would remain ultimately responsible for ALEO risk as the creation of arms-length bodies is an alternative way to deliver services on behalf of the Council. Further information on the management of risk including a SWOT analysis on each option can be found within **Appendix A**.

7. IMPACT SECTION

Economy

Council ALEOs contribute to the local economy through employment and the provision of services. The Assurance Hub would provide oversight of key corporate governance areas to ensure that ALEOs could continue to operate effectively within the local economy.

People

No significant equalities implications have been foreseen. An Equality and Human Rights Impact Assessment has been completed and submitted to the Council's Equalities team.

Place

The ALEO operating model would scrutinise how ALEOs were managing environmental issues and risks. Provision has been made within the proposal for relevant Council officers to receive project management training to enable them to oversee ALEO delivery of major capital or change programmes which may have an impact on place.

Technology

The Assurance Hub would scrutinise the processes and systems of governance adopted by the ALEOs and this would include how they used technology to manage their organisations, report performance and deliver services.

8. BACKGROUND PAPERS

CG/16/125 – ALEO Governance Hub, Audit, Risk and Scrutiny Committee, 27 September 2016.

9. APPENDICES

Appendix A: ALEO Operating Model Options Appraisal

Appendix B: Template for Exception Reporting

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