

## Audit, Risk and Scrutiny Committee

27 June 2017

Work stream:	Third Party Governance
Work stream Lead:	Roderick MacBeath
Update:	ALEO Governance Hub Operating Model: Options Appraisal

### Scope

To develop an Operating Model for the Council to receive assurance from its Arm's Length External Organisations (ALEOs) on the effectiveness of their 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.

### Outcomes

To produce a model which:

1. enables the Council to identify, monitor and mitigate risk relating to its arm's length operations;
2. determines the level of Council intervention needed to provide assurance that ALEOs were appropriately managing and mitigating risk to the Council;
3. integrates ALEO oversight arrangements into the third party governance structure;
4. simplifies and strengthens reporting arrangements by putting in place appropriate processes for reporting to Council committees that deal with risk and governance as well as service performance;
5. recognises the differences in funding levels, corporate structures and capacities of each of the Council's ALEOs and to shape the degree of scrutiny proportionate to the level of risk;
6. takes account of best practice guidance on ALEO governance and Committee approved recommendations from the Council's internal and external auditors;
7. mitigates against conflicts of interest between elected members, officers and ALEOs to ensure independent and measured scrutiny of the Council's ALEOs; and
8. adopts a proportionate response to ALEO oversight in which the level of scrutiny would shift from quality control to quality assurance based on a collaborative approach between the Council and its ALEOs.

## **Background**

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. A common reason for setting up ALEOs is to save money and about one-third of ALEOs are registered charities and can attract business rates relief. They can also generate income through selling services more widely, and it has been argued that their independence helps them focus on the business at hand and be more responsive to customers. Recently, Aberdeen City Council has established three ALEOs (Aberdeen Sports Village, Sport Aberdeen and Bon Accord Care) which receive over £1million in funding from the Council on an annual basis. As a result of this expansion, the Council's internal auditors recommended to the Audit and Risk Committee on 16 April 2013 that the Council should:-

1. ensure that SLAs outline the requirement for ALEOs to have risk management processes in place;
2. develop and maintain a risk register that would identify, assess and manage key risks relating to funding of individual ALEOs; and
3. review risk management frameworks created by ALEOs and monitor its adequacy with regular reporting to Council on its status and high level corporate risks.

In response to the internal audit report, the ALEO Governance Hub in its current format was established in June 2015 with the following remit:

*“To receive, through an agreed data set, a high level statement of assurance from ALEOs on the effectiveness of their systems of governance and operational performance, with a view to ensuring that the outcomes of that organisation are being met, and the risks to that organisation and to the Council, mitigated and managed. A detailed minute will be produced and submitted to the Audit, Risk and Scrutiny Committee”*

For its first two cycles, the Hub restricted its scrutiny to the four tier 1 ALEOs (Aberdeen Sports Village, Sport Aberdeen, Bon Accord Care and AECC Ltd) and in May 2016 this was expanded to include the three tier 2 ALEOs (Garthdee Alpine Sports, Aberdeen Performing Arts and Aberdeen Heat and Power). It is proposed that the ALEOs listed above, minus AECC Ltd (which from 1 April 2017 is in the process of being wound up as an ALEO) be included within the operating model's terms of reference and provision be made to expand or reduce the number of ALEOs subject to these arrangements where the level of risk necessitates.

The Hub's membership as at August 2016 and their respective roles are noted below:-

**Roderick MacBeath** (Senior Democratic Services Manager) (Chairperson) – Governance and Decision Making

**Neil Buck** (Performance and Risk Manager) – Risk Management

**Paul Dixon** (Finance Partner) – Financial Management

**Jeff Capstick** (HR Manager) – HR Management

**Mary Agnew** (Health, Safety and Wellbeing Manager) – Health, Safety and Wellbeing Management

**Joan McCluskey** (Corporate Procurement Manager) – Contract and Commercial Management

**Euan Couperwhite** (Head of Policy, Performance and Resources) – Service Lead for Aberdeen Sports Village, Sport Aberdeen and Garthdee Alpine Sports

**Scott Ramsay** (Senior Project Officer) – Service Lead <sup>1</sup> for AECC

**Tom Cowan** (Head of Operations, ACHSCP) - Service Lead for Bon Accord Care

**Lesley Thomson** (Cultural, Policy and Partnership Manager) - Service Lead for Aberdeen Performing Arts

**Mai Muhammad** (Energy Manager) - Service Lead for Aberdeen Heat and Power

From June to December 2015, the Hub met twice a year but from May 2016 the Hub began to meet four times a year following an external audit recommendation to do so. Representatives from the ALEOs were invited to attend Hub meetings to account for their performance and they were questioned in turn by Hub officers. The Clerk maintained an Improvement Plan for each ALEO and they were asked for a progress update at each Hub meeting. Minutes and an Assurance Statement were also produced and presented to the next meeting of the Audit, Risk and Scrutiny Committee. To prepare for Hub meetings, an officer's pre meeting was held to discuss areas of intended scrutiny at forthcoming meetings and a Conveners pre meeting was held to ensure that relevant elected members were consulted on ALEOs their committee had oversight of. The Conveners and Vice Conveners of the Audit, Risk and Scrutiny Committee; Education and Children's Services Committee; Communities, Housing and Infrastructure Committee and the Chair of the Integration Joint Board were all invited to attend.

The Hub has held 22 meetings since its inception and last met in August 2016. It last reported to the Audit, Risk and Scrutiny Committee on 27 September 2016. Following this, Democratic Services conducted a 360 survey on ALEO governance which was sent to the three main stakeholders in the process (ALEOs, Conveners and Vice Conveners and Hub officers).

Since the Hub has been in operation, the Good Governance Institute, CIPFA and the Council's internal and external auditors have all prepared reports on the Council's ALEO governance arrangements. More widely, the Scottish Parliament's Local Government and Regeneration Committee conducted an inquiry into ALEOs across Scotland. These reports have been summarised below:-

#### **Good Governance Institute Report (September 2016)**

- ALEOs welcomed the formation of the ALEO Strategic Partnership hosted by the Director of Corporate Governance as a forum for strategic planning, partnership working and horizon scanning
- Hub officers were unclear about how ALEO objectives aligned with the Council's and there was a lack of clarity about expectations which made it difficult to determine a level of assurance
- A conflation of roles had been identified between officers with support roles and those with scrutiny responsibilities
- Accountability for ALEO performance should be delegated to the relevant service directorate
- Significant administrative challenges had been identified by Hub officers relating to the number of meetings per year and volume of paperwork

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<sup>1</sup> A Service Lead is a senior Council officer who has been designated as the primary liaison officer between the Council and the ALEO and is responsible for ensuring that the Council's interests are respected. Service Leads meet regularly with senior managers from the ALEO, attend board meetings as observers and receive financial, operational and performance information. They are a source of advice to the service committee and are the accountable officer for ALEO performance

- The report recommended that exception reporting should be introduced to reduce the volume of ALEO submissions and the level of scrutiny should reflect the level of risk to the Council

#### **CIPFA Report (9 January 2017)**

- Councilors should not be directors on ALEO boards to avoid conflicts of interest
- Service Level Agreements (SLA) should be reviewed so that there is a greater clarity between the Council and its ALEOs on their shared objectives
- A Contract Manager<sup>2</sup> should be involved in the scrutiny process to ensure that ALEOs were effectively delivering on outcomes and adhering to contractual requirements
- The report recommended that Council scrutiny should ensure that ALEOs were using funds for its intended purpose, that best practice was being achieved, good governance and risk management arrangements were in place and effective relationships were being fostered and maintained
- Specialist Council support should be provided to ALEOs on a risk assessed basis
- The existing Governance Hub's one size fits all model was resource intensive and time consuming and consequently the Council should move from a quality control approach (detailed checking and measuring) to a quality assurance model (gaining assurance against risks)
- A balance has to be struck between ALEO oversight and allowing freedom to operate in order to deliver expected outcomes

#### **Internal Audit Report ((Audit, Risk and Scrutiny Committee, 9 March 2016)**

- The Council should adopt a formal definition of an ALEO
- Service Directorates should update their risk registers to take account of risks relating to ALEOs within their remit
- It should be the responsibility of the Service Directorate to monitor ALEO performance and contractual compliance
- More tangible links should be adopted between the provision of Council funding to the ALEOs and performance against Council objectives as set out in SLAs
- SLAs should be revised to ensure that there is a requirement for all ALEOs to put in place an independent internal audit function

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<sup>2</sup> A Contract Manager would be a designated officer from Legal Services or Commercial and Procurement Services who would have responsibility for ensuring an ALEO's compliance with contractual requirements as set out in Service Level Agreements.

### **External Audit Report (Audit, Risk and Scrutiny Committee, 27 June 2016)**

- The Council should take steps to improve the monitoring of ALEO performance relating to the delivery of Council objectives and value for money
- Performance information should be more coordinated and streamlined in order to reduce administrative strain and avoid duplication
- The degree of ALEO scrutiny should be targeted in terms of the level of risk to the Council
- SLAs should be reviewed with clear Council objectives which the Hub could monitor performance against
- Assurance Statements should be introduced in order for the Audit, Risk and Scrutiny Committee to be updated on how assured Hub officers were with regards to ALEO performance and the management of risk
- The Council should gather feedback on ALEO governance arrangements from its main stakeholders

### **Scottish Parliament's Local Government and Regeneration Committee Report (9 March 2016)**

- The Committee report focussed on the democratic accountability and delivery of public services by ALEOs, its conclusions are noted below
- There are inherent tensions between the involvement of citizens under the public reform agenda and councils' use of ALEOs which could lead to an increasingly fragmented service delivery environment
- The appointment of Councillors onto ALEO boards ensures that public money provided by the Local Authority is used properly
- Concern was raised with respect to multiple ALEOs functioning in the same area and delivering similar services leading to duplication and cause confusion to the public
- The creation of "*Super ALEOs*" through merging ALEOs in order to achieve further efficiencies could result in less flexibility and greater risk to local authorities if non-performance was identified
- There was concern that ALEOs were providing services to vulnerable people in areas such as social care
- Councils should put arrangements in place to enable them to monitor the delivery of outcomes, public involvement in the delivery of local services and potential risk if non-performance was identified

## **Benchmarking**

In August 2016 Audit Scotland reported that there were 130 ALEOs operating throughout Scotland. A further survey from the Office of the Scottish Charity Regulator (OSCR) found that 27 Local Authorities had established at least one ALEO and these ALEOs were mostly limited companies although a number of trusts and Scottish Charitable Incorporated Organisations (SCIO) had also been registered: the majority of ALEOs operated in the leisure and cultural sector, whilst a number of ALEOs had housing and urban regeneration remits. Following a review of the ALEO landscape across Scotland it became apparent that there is no standard way of scrutinising ALEOs as each Local Authority has adopted monitoring arrangements suited to their own particular needs and circumstances. For instance North Lanark shire Council established an ALEO and External Bodies Monitoring Committee which first met on 17 May 2016 and had seven elected members serving on the Committee. The terms of reference delegate authority to the Committee to scrutinise business and strategic plans; and monitor ALEO risks, financial performance and performance against contract. Whereas smaller authorities which have only one ALEO, such as South Ayrshire Council limit their scrutiny to the submission of an ALEO progress report to the relevant service committee on a bi-annual basis.

More broadly, ALEO scrutiny has been delegated to service committees; finance committees; policy and resources committees; and operational cabinets. The frequency of formal scrutiny also ranged from quarterly updates to annual consideration of an ALEO's business plan or annual report but most Councils in response to a Scottish Parliamentary survey noted that finance colleagues had regular access to ALEO accounts for monitoring purposes and a designated service lead attended ALEO board meetings as an observer. They also advised that planned and ad hoc meetings between senior Council officers and ALEOs took place throughout the year. Stirling Council noted that the level of scrutiny and reporting requirements for their ALEOs correlated with the level of funding provided by the Council.

## **Options Appraisal**

### **Option 1: Committee Model**

- 1.1** An External Bodies Sub-Committee of the Audit, Risk and Scrutiny Committee comprised of elected members would be established and undertake the scrutiny of ALEOs
- 1.2** The Sub-Committee would be integrated into the committee structure and adopt the Council's governance framework and reporting arrangements
- 1.3** Meetings of the Sub-Committee would be open to the public and press
- 1.4** The Sub-Committee would be assigned powers currently delegated to the Communities, Housing and Infrastructure and Education and Children's Services Committees. Terms of Reference would be revised to avoid duplication
- 1.5** Senior officers who had been members of the Governance Hub would be chief advisers to the Committee. The Sub-Committee would require resource from officers with expertise in risk management; financial management; governance and decision making; HR; health and safety; procurement and contract compliance; and service performance. Health and Social Care Partnership officers would advise on issues relating to Bon Accord Care

- 1.6** An elected members training session on ALEO governance and scrutiny would be scheduled prior to the Sub-Committee's first meeting to increase members' awareness of key issues and to highlight the Sub-Committee's remit to receive assurance on strategic matters
- 1.7** The Sub-Committee would receive administrative support from Committee Services
- 1.8** ALEO representatives would be invited to attend at the request of the Sub-Committee
- 1.9** ALEO risk registers, management trading accounts and KPIs would be reported on a quarterly basis; business continuity and business plans would be considered on an annual basis
- 1.10** Authority would be delegated to the Sub Committee to begin the escalation process and to make recommendations to the relevant committee on the withdrawal of ALEO funding
- 1.11** The Sub-Committee would consider best practice guidance; audit reports; SLA revisions and proposals to create a new ALEO or subsidiary; as well plans to merge two organisations or have an ALEO wound up
- 1.12** Internal and external audit would be invited to observe Sub-Committee proceedings to enable them to form an opinion on the robustness of ALEO governance in order to support reporting to the Audit, Risk and Scrutiny Committee
- 1.13** ALEO risk assessments and Sub-Committee minutes would be presented to the next meeting of the Audit, Risk and Scrutiny Committee. Risk Assessments and minute extracts relating to Bon Accord Care would be submitted to the Audit, Risk and Scrutiny Committee and the IJB's Audit and Performance Systems Committee to reflect both bodies role in its oversight
- 1.14** Service Leads would continue to attend board meetings as observers and meet regularly with senior ALEO officials
- 1.15** To provide additional assurance on ALEOs' capital investment and change projects, it is recommended that relevant ALEO representatives and Council Service Leads attend the Council's three day training Project Management Office (PMO) training course. This course would cover areas such as the project management toolkit; project planning; business planning; risk management and communications
- 1.16** ALEO accounts would be presented to ACC Finance on a quarterly basis to support the quarterly reporting of Group Accounts to the Finance, Policy and Resources Committee in light of the bond issue
- 1.17** An Accountability Statement should be developed to outline the roles and responsibilities of individuals and organisations involved in the governance of ALEOs. This would be a living document and updated as and when required
- 1.18** For the first cycle of meetings the following ALEOs would be included within the Sub-Committee's terms of reference: Aberdeen Sports Village, Sport Aberdeen, Bon Accord Care, Garthdee Alpine Sports, Aberdeen Performing Arts and Aberdeen Heat and Power
- 1.19** The criteria for identifying additional external bodies subject to these governance arrangements would be predicated on the body's level of risk to the Council as determined by the Sub-Committee,

in line with the external body's Service Level Agreement; the Council's corporate policies; and after consultation with the Audit, Risk and Scrutiny and relevant service committee

<b>SWOT</b>	<b>Committee Model</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Thorough scrutiny would lead to a greater understanding of the Council's ALEOs and how they operate. Tighter scrutiny of the ALEOs would allow the Council to determine at an early juncture if ALEOs were performing poorly, engaging in bad practice or posed an unacceptable risk to the Council</li> <li>• Corporate visibility and cohesion would be strengthened and accountability increased. The public's perception as identified in the Scottish Parliamentary Inquiry into ALEOs that the creation of ALEOs had further removed accountability and decision making from voters would be addressed with elected members providing direct scrutiny</li> <li>• By holding regular meetings with the ALEOs and reporting their performance to Council committees this would reinforce the corporate relationship</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• The Committee would have powers to scrutinise service performance and this could lead to duplication of information, time and resource between the Sub-Committee, service committees, service directorates and ALEO boards</li> <li>• Having elected members scrutinise ALEOs may lead to the politicisation of ALEO governance. CIPFA have recommended in their Local Government Framework (2016) that public bodies should aim to take decisions with a longer term view to achieve organisational outcomes and short term factors such as the political cycle may impinge on this</li> <li>• Elected members may stray into consideration of operational or low level matters which should be reserved to ALEO boards</li> <li>• The resource impact on Council officers would be significant. Workload for senior officers across service lines would have to be taken into account. Organisational and systematic change may be required to closely monitor ALEO performance and support the operation of the Sub-Committee</li> <li>• Committee structures and processes would have to be revised to accommodate the establishment of a new sub-committee. This would have resource implications for services charged with this task</li> <li>• The adoption of formal committee processes may lead to meetings which are confrontational rather than collaborative and ALEOs advised in their responses to the 360 survey that they would prefer the adoption of a more collaborative approach to ALEO oversight</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Local democracy would be strengthened with Councilors undertaking direct scrutiny of ALEOs</li> </ul>

	<ul style="list-style-type: none"> <li>• ALEO accountability and transparency would increase as Sub-Committee meetings would be open to the public and press. This was a key issue identified by the Scottish Parliament’s Local Government and Regeneration Committee during their inquiry into ALEOs</li> <li>• By establishing a Sub-Committee comprised of elected members and supported by officers with expertise in areas of risk, governance and financial management the Council would be able to provide ongoing assurance about the level of risk and financial viability of external organisations within its group accounts to credit rating agencies and other financial bodies with an interest in the Council’s bond issue</li> <li>• The establishment of a Sub-Committee would appropriately reflect the level of risk to the Council having established several tier 1 and 2 ALEOs which collectively receive grant funding in excess of £35 million</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• The scrutiny role of ALEO boards could be undermined, board members may not feel that ALEOs are sufficiently independent and this could result in difficulty attracting high level talent</li> <li>• Accountability of the Council for its ALEOs would increase but this would complicate the local ALEO landscape in terms of which body ALEO managers were ultimately accountable to</li> <li>• Conflicts of interest involving elected members and ALEOs may undermine the independence and effectiveness of the Council’s scrutiny body</li> <li>• Due to inherent conflicts of interest between Councilors and ALEOs, the Council may be subject to closer scrutiny from the Standards Commission and other audit and scrutiny bodies</li> <li>• Workload for ALEO partners would likely increase</li> <li>• Closer scrutiny of ALEOs may reduce the ALEOs' risk appetite and they may not pursue innovative policies and projects particularly in the area of income generation. This would be a concern as access to external funding sources and generating additional income remains one of the primary drivers for establishing an ALEO</li> </ul>

## **Option 2: Governance Hub Model**

- 2.1** This model would closely resemble the previous Governance Hub structure which was officer led
- 2.2** Specialist officers from across the Corporate Governance directorate would be identified to support the Hub alongside ALEO service leads. Resource would be required from officers with expertise in risk management; financial management; governance and decision making; HR; health and safety;

procurement and contract compliance; and service performance. Health and Social Care Partnership officers would support the work of the Hub for issues relating to Bon Accord Care

- 2.3** The Hub would appoint a Chairperson from within its membership
- 2.4** Committee Services would provide administrative support to the Hub
- 2.5** A development session would be organised based on feedback received from the ALEO 360 survey; and the GGI and CIPFA reports to learn lessons and improve on how the Hub previously operated
- 2.6** Standing items on Hub agendas would include risk registers; management trading accounts and performance indicators which would evidence ALEO performance against Council objectives as set out in SLAs. The Hub would continue to exercise quality control through receipt of detailed reports and documentation
- 2.7** ALEO representatives would continue to be invited to attend Hub meetings and account for performance
- 2.8** Hub minutes and an assurance report would be submitted to the next meeting of the Audit, Risk and Scrutiny Committee. Assurance reports and minutes relating to Bon Accord Care would be submitted to the Audit, Risk and Scrutiny Committee and the IJB's Audit and Performance Systems Committee to reflect both bodies role in its oversight
- 2.9** Hub officers would continue to attend the Audit, Risk and Scrutiny Committee to respond to members questions on their level of assurance
- 2.10** ALEOs would be expected to present their business plans and/or annual reports to the relevant service committee once a year and appear in person to directly answer questions from elected members. It may also be beneficial for ALEOs to prepare a one off presentation at service committees following the Local Government elections in May 2017 to increase the new Council's understanding of an ALEO's role in strategic planning and service delivery; and to set out governance arrangements and relationships with the Council
- 2.11** The Hub would be integrated into the initial stages of the escalation process for withdrawing ALEO funding
- 2.12** Internal and external audit would be invited to observe Hub proceedings to enable them to form an opinion on the robustness of ALEO governance in order to support reporting to the Audit, Risk and Scrutiny Committee
- 2.13** Service Leads would continue to attend board meetings as observers and meet regularly with senior ALEO officials to discuss operational matters
- 2.14** To provide additional assurance on ALEOs' capital investment and change projects, it is recommended that relevant ALEO representatives and Council Service Leads attend the Council's three day training Project Management Office (PMO) training course. This course would cover areas such as the project management toolkit; project planning; business planning; risk management and communications

- 2.15** ALEO trading accounts would be presented to ACC Finance on a quarterly basis to support the quarterly reporting of Group Accounts to the Finance, Policy and Resources Committee in light of the bond issue
- 2.16** An Accountability Statement should be developed to outline the roles and responsibilities of individuals and organisations involved in the governance of ALEOs. This would be a living document and updated as and when required
- 2.17** For the first cycle of meetings the following ALEOs would be included within the Governance Hub’s remit: Aberdeen Sports Village, Sport Aberdeen, Bon Accord Care, Garthdee Alpine Sports, Aberdeen Performing Arts and Aberdeen Heat and Power
- 2.18** The criteria for identifying external bodies subject to these governance arrangements would be predicated on the body’s level of risk to the Council as determined by the Hub, in line with the external body’s Service Level Agreement; the Council’s corporate policies; and after consultation with the Audit, Risk and Scrutiny and relevant service committee

<b>SWOT</b>	<b>Governance Hub Model</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• The framework for this model is largely in place so this would support its implementation</li> <li>• The Council’s level of control over its ALEOs would likely increase over time</li> <li>• Bad practice and poor performance could be identified by specialist officers at an early stage and escalated to the ALEO board and relevant Council committees</li> <li>• In the recent past Council auditors have recommended increased scrutiny of ALEOs</li> <li>• Hub officers would produce an Assurance Statement and minutes of meetings which would increase transparency and officers would be held to account by the Audit, Risk and Scrutiny Committee on their level of assurance</li> <li>• By holding regular meetings with senior ALEO representatives and reporting their performance to Council committees, the corporate relationship would be reinforced</li> <li>• ALEOs would receive independent scrutiny from officers with expertise in a number of key areas. This would strengthen the robustness of the ALEOs’ governance arrangements</li> <li>• The active involvement of key officers including the Performance and Risk Manager would increase the robustness of Corporate and Service risk registers in relation to ALEOs</li> <li>• The Hub’s integration into the escalation process would provide greater clarity</li> </ul>

	<p>for ALEOs on Council procedures. A lack of understanding about the escalation process was identified by a number of ALEOs in their 360 survey responses</p>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• The existing model may not be proportionate and has led to duplication between what has been considered by the Hub; ALEO boards; the ALEO Strategic Partnership; the Audit, Risk and Scrutiny Committee; and service committees</li> <li>• The Hub may continue to inadvertently slip into scrutiny of operational matters which should be reserved to ALEO boards and service committees</li> <li>• The resource impact on Council officers would be significant. Particularly on senior officer time as they would comprise the membership of the Hub. The GGI have noted that submission of detailed reports to the Hub by ALEOs has proven to be “burdensome” and “unsupportable in the future”</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• More detailed scrutiny of ALEOs would lead to greater understanding of how they operate and may enable the Hub to identify opportunities to improve ALEO performance and increase value for money, as well as opportunities for pooling resources</li> <li>• By establishing a Hub staffed by officers with expertise in areas of risk, governance and financial management the Council would be able to provide ongoing assurance about the level of risk and financial viability of external organisations within its group accounts to credit rating agencies and other financial bodies with an interest in the Council’s bond issue</li> <li>• The establishment of a Hub would appropriately reflect the level of risk to the Council having established several tier 1 and 2 ALEOs which collectively receive grant funding in excess of £35 million</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• The scrutiny role of the ALEO boards could be undermined, board members may not feel that ALEOs were sufficiently independent and could result in a difficulty attracting high level talent</li> <li>• The existing scrutiny model has been described by a number of ALEOs in their 360 survey responses as confrontational and administratively burdensome. There is a concern that ALEOs may disengage from the process</li> <li>• Closer control of ALEOs by the Council may lead to ALEOs questioning their status as ALEOs if their independence or freedom of movement is curtailed in light of closer Council scrutiny. It is also a key criteria of OSCR that charities be able to demonstrate sufficient independence from parent bodies</li> <li>• Closer scrutiny by the Council may lead to the ALEOs becoming risk adverse and not adopting innovative solutions or entering into partnerships with private enterprise</li> <li>• The publication of assurance statements and minutes could lead to negative media coverage on areas of poor performance or disagreement between the</li> </ul>

### **Option 3: Assurance Hub Model**

- 3.1** The Hub's remit would be to receive assurance from its Arm's Length External Organisations (ALEOs) on the effectiveness of their 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.
  
- 3.2** The Hub would receive assurance on governance rather than adopt a quality control approach. Membership would be scaled back to cover risk management; financial management and governance arrangements. The Hub's core membership would comprise of the Council's Performance and Risk Manager; the Corporate Governance Finance Partner; and the Senior Democratic Services Manager. Service Leads would also attend meetings as advisers to the Hub. Health and Social Care Partnership officers would support the work of the Hub for issues relating to Bon Accord Care.
  
- 3.3** Service directorates and committees would be responsible for monitoring ALEO performance and contractual compliance. It is recommended that provision be made within SLAs to require ALEOs to submit performance information to service committees in a format which supports Council business and at a frequency to be set out in SLAs. The Service Lead would be the Committee's primary source of advice on each ALEO and provide assurance on operational and performance matters
  
- 3.4** Each ALEO would present their business plan or annual plan to the relevant service committee once a year and appear in person to directly answer members' questions. Bon Accord Care would report annually to Council and the Integration Joint Board to recognise both bodies role in its oversight and to ensure strategic alignment. It may also be beneficial for ALEOs to prepare a one off presentation at service committees following the Local Government elections in May 2017 to increase the new Council's understanding of an ALEO's role in strategic planning and service delivery; and to set out governance arrangements and relationships with the Council
  
- 3.5** A development session would be organised for elected members to brief them on the Hub's strategic remit; and how the Hub would conduct its business and report to the Audit, Risk and Scrutiny Committee. The session would also highlight the Hub's purpose to provide oversight of ALEO governance and risk management; whereas service directorates would be accountable for service performance and would report to the relevant service committee
  
- 3.6** The Hub would appoint a Chairperson from within its membership
  
- 3.7** Designated officers from Legal Services; Commercial and Procurement Services; HR; Health and Safety; and Asset Management would be co-opted onto the Hub where required
  
- 3.8** Terms of Reference would clearly differentiate between officers who had a support role (ALEO Strategic Partnership) and those with a scrutiny role (Assurance Hub) in order to mitigate against conflicts of interest

- 3.9** An Accountability Statement should be developed to outline the roles and responsibilities of individuals and organisations involved in the governance of ALEOs. This would be a living document and updated as and when required
- 3.10** The Hub would continue to review internal and external audit reports, national reports on ALEO governance and best practice guidance
- 3.11** ALEOs would be risk assessed based on their level of funding support and risk management arrangements. The Hub would make a determination on which ALEOs represented a high risk to the Council and should report more regularly to the Hub. The GGI report has outlined a number of areas that this risk assessment could cover and these include risks related to finance; regulatory compliance; transformation and innovation; harm to the community; impact on Council clients and staff; and the Council's reputation
- 3.12** Committee Services would provide administrative support to the Hub
- 3.13** Commercial and Procurement Services have proposed a template that would allow ALEOs to prepare exception reports for the Hub's consideration. This would cut down on the volume of paperwork and lead to a more effective use of staff time. The GGI have suggested that the inclusion of top scoring risks, mitigation measures and assurance status should be considered during the development of exception reporting templates
- 3.14** Exception reporting would facilitate a better balance between ALEOs providing sufficient information for Council to be assured of the level of risk whilst not being too onerous for ALEOs to provide, or for officers and members to understand. Achieving this balance was a key point outlined within CIPFA's Local Government Framework (2016)
- 3.15** The Hub would have the authority to increase or reduce scrutiny based on the level of assurance it had received and retain the option to invite ALEOs to attend Hub meetings to account for their performance
- 3.16** Internal and external audit would be invited observe Hub proceedings to enable them to form an opinion on the robustness of the process in order to strengthen reporting to the Audit, Risk and Scrutiny Committee
- 3.17** An ALEO assurance report would be presented to the next meeting of the Audit, Risk and Scrutiny Committee. Assurance reports relating to Bon Accord Care would be submitted to the Audit, Risk and Scrutiny Committee and the IJB's Audit and Performance Systems Committee to reflect both bodies role in its oversight
- 3.18** Hub officers would attend the Audit, Risk and Scrutiny Committee and be held to account by committee members on their level of assurance with regards to ALEO governance. An annual performance report would be submitted to the Committee to outline the work of the Hub over the previous year
- 3.19** Council would receive further assurance on ALEO governance through the presence of elected members on ALEO boards
- 3.20** Service Leads would continue to attend board meetings as observers and meet regularly with senior ALEO officials

- 3.21** To provide additional assurance on ALEOs’ capital investment and change projects, it is recommended that relevant ALEO representatives and Council Service Leads attend the Council’s three day training Project Management Office (PMO) training course. This course would cover areas such as the project management toolkit; project planning; business planning; risk management and communications
- 3.22** ALEO accounts would be presented to ACC Finance on a quarterly basis to support the quarterly reporting of Group Accounts to the Finance, Policy and Resources Committee in light of the bond issue
- 3.23** ALEOs should give consideration to holding board meetings in public and publishing reports and minutes online to make ALEO management more transparent and provide greater clarity on accountability
- 3.24** For the first cycle of meetings the following ALEOs would be included within the Assurance Hub’s remit: Aberdeen Sports Village, Sport Aberdeen, Bon Accord Care, Garthdee Alpine Sports, Aberdeen Performing Arts and Aberdeen Heat and Power
- 3.25** The criteria for identifying additional external bodies subject to these governance arrangements would be predicated on the body’s level of risk to the Council as determined by the Hub, in line with the external body’s Service Level Agreement; the Council’s corporate policies; and after consultation with the Audit, Risk and Scrutiny and relevant service committee

<b>SWOT</b>	<b>Assurance Hub Model</b>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Less resource intensive than Options 1 and 2</li> <li>• The use of exception reporting would streamline the reporting process and allow for a more efficient interrogation of risk management and governance arrangements</li> <li>• The scope of scrutiny would be scaled back to be more strategically focused, therefore a drift into scrutiny of operational matters would be less likely</li> <li>• By scaling back the Hub’s scope of scrutiny to focus on financial management, risk management and governance; and by delegating service performance and contractual compliance to service committees, responsibility would be assigned to officers with appropriate expertise and accountability as per job profiles and committee terms of reference. For instance, the Hub with its focus on risk would report to the Audit, Risk and Scrutiny Committee; and service directorates with responsibility for ALEO performance and contractual compliance would report to the relevant service committee</li> <li>• This model is the most balanced amongst all the options presented. It is cognizant of the respective roles of the ALEO Strategic Partnership; the Hub; Council committee; auditors; service directorates; and ALEO boards</li> </ul>

	<ul style="list-style-type: none"> <li>• The Council’s capacity to follow the public pound would be reinforced as Service Leads would monitor and report service performance to service committees whilst the Assurance Hub would monitor and report on financial performance to the Audit, Risk and Scrutiny Committee</li> <li>• By reporting ALEO performance to the relevant service committee, Councillors and the public would be assured of an ALEO’s contribution towards the achievement of Council objectives</li> <li>• ALEOs would receive independent scrutiny from officers with expertise in a number of key areas. This would strengthen the robustness of the ALEOs’ risk management and governance arrangements</li> <li>• The involvement of key officers in the assurance process such as the Performance and Risk Manager would increase the robustness of Corporate and Service risk registers in relation to ALEOs</li> <li>• Clear separation between ALEO support officers (ALEO Strategic Partnership) and scrutiny officers (Assurance Hub) improves ALEO governance by reducing conflicts of interest This would follow best practice as noted in the Following the Public Pound (2004) guidance</li> <li>• By assigning responsibility for governance and risk management to the Hub; and service performance and contractual compliance to service directorates, duplication of reporting would be reduced resulting in a more efficient co-ordination of information. This was a key recommendation of the External Audit report from 27 June 2016</li> <li>• This model would comply with a recommendation made by CIPFA (2017) that the Council should shift its focus from quality control to quality assurance in relation to ALEO oversight</li> <li>• The 360 ALEO survey found that a number of ALEOs felt that the existing Governance Hub model was too interrogative and would welcome the introduction of a more collaborative way for the Council to receive assurance on ALEO governance</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• The level of ALEO scrutiny would be streamlined and operational matters would generally not be considered. This may be an issue as the previous iteration of the Governance Hub identified a number of areas for improvement relating to operational practice particularly from the Tier 2 ALEOs which had less resource</li> <li>• Formal minutes would not be produced as the Hub’s method of receiving assurance would be through exception reporting as opposed to holding scrutiny meetings. Elected members may question if assurance statements provide the level of detail for them to be assured on an ALEO’s management of risk</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• The separation of support and scrutiny bodies would allow the ALEO Strategic Partnership to provide a collaborative strategic planning forum that could provide opportunities for closer working and better use of resources between</li> </ul>

	<p>the Council and its ALEOs, whilst mitigating conflicts of interest</p> <ul style="list-style-type: none"> <li>• By establishing a Hub staffed by officers with expertise in areas of risk, governance and financial management the Council would be able to provide ongoing assurance about the level of risk and financial viability of external organisations within its group accounts to credit rating agencies and other financial bodies with an interest in the Council's bond issue</li> <li>• The establishment of a Hub would appropriately reflect the level of risk to the Council having established several tier 1 and 2 ALEOs which collectively received grant funding in excess of £35 million in 2016-17</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• This model is not as transparent as Options 1 and 2 as Hub proceedings would not be open to the public and detailed Hub minutes would not be produced for public scrutiny</li> </ul>

#### **Option 4: External Assurance Model**

- 4.1** The Council receives assurance from existing bodies and structures on governance and risk management. These include reports to and from ALEO boards; internal and external audit reports; and ALEO compliance with OSCR and/or industry regulator criteria. ALEO performance against SLA outcomes would be reported to service committees on a frequency to be set out within SLAs
- 4.2** Service Leads would attend ALEO board meetings and continue to receive operational and performance information. Service Leads would attend service committee meetings and be available to answer members' questions and provide assurance on ALEO performance and governance
- 4.3** A senior officer from the Health and Social Care Partnership would be the designated Service Lead for Bon Accord Care and would provide assurance to the Integration Joint Board and Full Council
- 4.4** Resource allocated by the Council to ALEO governance would be significantly reduced as officers would not be required to support a Sub-Committee or an officer led Hub. Officers with specific areas of expertise may be requested to support the work of service committees and the Audit, Risk and Scrutiny Committee on an ad hoc basis
- 4.5** To provide additional assurance on ALEOs' capital investment and change projects, it is recommended that relevant ALEO representatives and Council Service Leads attend the Council's three day training Project Management Office (PMO) training course. This course would cover areas such as the project management toolkit; project planning; business planning; risk management and communications
- 4.6** ALEO accounts would be presented to ACC Finance on a quarterly basis to support the quarterly reporting of Group Accounts to the Finance, Policy and Resources Committee in light of the bond issue
- 4.7** Council would receive further assurance on ALEO governance through the presence of elected members on ALEO boards

- 4.8** ALEOs should give consideration to holding board meetings in public and publishing reports and minutes online to make ALEO operations more transparent and provide greater clarity on accountability
- 4.9** An Accountability Statement should be developed to outline the roles and responsibilities of individuals and organisations involved in the governance of ALEOs. This would be a living document and updated as and when required
- 4.10** ALEOs would present their business plans and annual plans to the relevant service committee and senior ALEO officials would be invited to attend the meeting to directly answer questions from elected members. It may also be beneficial for ALEOs to prepare a one off presentation at service committees following the Local Government elections in May 2017 to increase the new Council's understanding of an ALEO's role in strategic planning and service delivery; and to set out governance arrangements and relationships with the Council
- 4.11** Existing escalation procedures for contractual non-compliance or poor performance would remain in place

SWOT	External Assurance Model
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Least resource intensive, the level of administration provided by the Council would reduce significantly</li> <li>• Duplication of resource and information would be less likely</li> <li>• ALEO governance and oversight would be less complex</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• The Council would be reactive rather than proactive and may not be fully aware of issues until they manifest. There would be additional risk in this approach</li> <li>• A receipt of external assurance would not insulate the Council from criticism if ALEO performance was poor. The Council would remain the accountable body for services it had outsourced</li> <li>• As scrutiny and engagement would be less frequent, some areas of operation would remain in dispute i.e. repairs and maintenance responsibilities</li> <li>• High reliance on Service Leads to control the flow of information from ALEOs and keep specialist colleagues informed of emerging issues</li> <li>• Items in the Corporate and Service risk registers relating to ALEOs may not be updated as early or often as necessary due to a reduction in the information flow between the Council and its ALEOs</li> <li>• High reliance on ALEO boards to provide scrutiny and assurance to the Council. The board may not have specialism in a number of key areas such as procurement; health and safety; and risk management</li> <li>• The ALEO landscape is becoming increasingly cluttered and complex and a number of ALEOs have established subsidiaries or become members of larger</li> </ul>

	<p>partnerships. As the Council would be reliant on a receipt of external assurance, this model would be least tangible in terms of following the public pound and the weakest in terms of accountability to the Council</p>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• ALEOs and their boards would be empowered and their brands would likely become more distinct (through less engagement with the Council and the resulting less media coverage of this relationship) and this may increase their risk appetite to develop innovative solutions with regards to income generation; forming new partnerships and delivering better services</li> <li>• The Council's confidence in its ALEOs and their boards to provide effective scrutiny on its behalf would be transmitted</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• The degree of assurance that Council could provide to creditors and other financial agencies with an interest in the bond issue may be reduced as there would not be a Sub-Committee or an officer led Hub in place to provide this.</li> <li>• This is the least accountable and transparent model, the lack of published scrutiny from the Council in relation to its ALEOs in light of possible reductions in service delivery and closure of community facilities could possibly lead to negative press coverage and reputational damage</li> <li>• ALEOs may be inclined to pay less attention to meeting Council objectives in favor of achieving their own organisational outcomes. Corporate visibility would likely be reduced</li> <li>• Scrutiny bodies such as Audit Scotland and the Accounts Commission have recommended a greater level of engagement from councils in the area of ALEO governance not less. An example of this can be found in Following the Public Pound (2004) which advised that <i>"officers and councilors on ALEO boards and bodies does not, in itself represent a robust monitoring mechanism to enable the Council to discharge its stewardship responsibilities"</i></li> <li>• An external assurance model would run contrary to best practice guidance and recommendations made recently by the Council's internal and external auditors</li> </ul>

## Conclusion

The purpose of this options appraisal was to design a model that could enable the Council to efficiently follow the public pound and receive assurance from its ALEOs that risk was being mitigated and managed; whilst recognising that ALEOs are separate legal entities, with their own boards and internal and external scrutiny arrangements. After a review of audit reports and best practice guidance it became clear that there was no consensus on a best practice model. Having taken this into account and considered 360 survey responses and recent Good Governance Institute and CIPFA reports, it is recommended that a proportionate response to ALEO oversight be adopted in which the level of scrutiny would shift from

quality control to quality assurance and for the Hub's remit to be scaled back to cover risk management, financial management and governance. Service directorates and committees would be responsible for monitoring service performance and ensuring compliance against requirements set out in Service Level Agreements.

Under the existing national system whereby Councilors regularly serve on ALEO boards, the potential conflicts of interest outlined in **Option 1: Committee Model** of Councilors serving on ALEO boards and then scrutinising their governance arrangements would be a challenging issue to address. A benchmarking exercise of North Lanarkshire Council's recently established ALEOs and External Bodies Monitoring Committee found that at its first meeting on 17 May 2016, two of the Committee's seven members declared an interest and left the meeting before consideration of a performance monitoring framework. This issue may also impact the work of the Sub-Committee outlined in option 1. With this model there is also concern about the politicisation of ALEO governance and that scrutiny may focus on low level, operational matters of importance to constituents but out with the Committee's strategic remit.

With respect to **Option 2: Governance Hub Model**, there would be significant resource implications for Council services and officers who would be charged with supporting the function of the Hub and this issue has already been identified by Hub officers in their 360 survey responses. ALEOs felt that this format was too interrogative and they would favor a more collaborative approach. There are additional issues around the coordination and duplication of information between the Hub; Service Leads; Council committees and ALEO boards. Concern has also been raised that the Hub may slip into the scrutiny of operational matters that should be left to ALEO boards.

Having noted previously that a key objective of this appraisal was to achieve a balance between the Council's need for assurance and recognition of its ALEOs' status as independent legal entities, **Option 4: External Assurance Model** would not meet this objective as there is a concern that the Council may become too reactive when issues arose and its capacity to follow the public pound could be reduced. Another key weakness of this model is that it does not take cognizance of a more complex and challenging economic environment. The Council's capacity to provide targeted and ongoing assurance to external partners including credit agencies on the mitigation of risk and financial viability of ALEOs would also be curtailed.

Therefore it is **recommended** that **Option 3: Assurance Hub Model** be adopted as the preferred option for the ALEO Operating Model. This model achieves the best balance between the Council's need for assurance and the ALEOs' legal right to govern themselves. The responses of the 360 survey have also been taken into account as the implementation of an Assurance Hub would scale back resource implications for officers and introduce a more targeted and collaborative form of strategic oversight that would be in line with auditing requirements and best practice guidance. A risk based approach has also been favoured by the National Audit Office which during its review of arms-length bodies for the UK Government noted that *'with resources constrained, departments are increasingly adopting risk based approaches to oversight that are proportionate to the risks that the arms-length body poses to the department'*.

Furthermore this model would provide the best strategic fit for the Council moving forward as the public sector landscape shifts from traditional, in-house service delivery to more innovative models based around the creation of ALEOs, Joint Ventures, shared services and partnerships with private and independent organisations. The Council also has to be mindful of the financial and risk implications posed by ALEOs within group accounts in light of the recent bond issue valued at £370 million. This point was highlighted within the General Revenue Budget 2017-18 – 2021-22 approved by Council on 22 February 2017 which noted that *'the credit rating agency was particularly interested in 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'*. This model will help the Council adapt to this new landscape by supporting its capacity to follow the public pound and enhance its capacity to receive and provide assurance on risks which the Council remains ultimately accountable for.

**Draft Template for Exception Reporting**

**RISK MANAGEMENT**

ALEOs need to manage risks as part of their day to day operations and as part of forward planning and development. Aberdeen City Council bears some risk as a result of those decisions and requires assurance that ALEOs are managing their own risks appropriately.

The following requires to be completed/updated and submitted to ACC as requested prior to each Assurance Hub Meeting.

<b>Risk Strategy or Policy</b>
Please provide a copy of your risk policy document unless it has been provided to the Hub within the last 12 months.
<i>Why is this requested?</i>
<i>It is important that the Council understands your approach to risk management. For example, the level of risk you are prepared to tolerate as an organisation within different categories of risk.</i>
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<b>Top ten risks</b>
Please detail your top 10 risks as stated on your risk register.
<i>Why is this requested?</i>
<i>We need to know that you have a proper understanding of the risks facing your organisation within the context of the current and future operating environments. Your top most significant risks will give us a picture of the pressures and challenges you face and how these are being addressed.</i>

<b>Risk Controls (mitigation)</b>
Are controls (mitigation) being properly applied to your top risks?
<i>Why is this requested?</i>
<i>We need to know how effective your risk controls are. For example, if you need to roll-out training for something, how is this progressing? Controls become effective when actions needed to address them are completed. We need evidence that these actions are being</i>

*completed*

### **Business Continuity**

What arrangements are in place to ensure business can resume quickly following disruption of service?

*Why is this requested?*

*Your organisation provides public services. In times of disruption, due to natural or unnatural events which disrupt the delivery of service, what arrangements are in place to mitigate the effects of disruption and to resume effective service operations as quickly as possible?*

### **Risk Assurance**

What assurance is in place that risk management is effective?

*Why is this requested?*

*Assurance is the process by which the board will be confident that their risks are being adequately controlled. For example, how frequently is the risk register reviewed and reported to the board? How frequently does internal and external audit activity take place to provide assurance on the effectiveness of risk controls? What independent or third party assessment is received by the board to provide assurance about the effectiveness of risk management activity?*

## Scoring and Risk

In order to ensure proper and robust review of how Risk Management is approached within your organisation, your responses will be reviewed and given an overall score of between 0 and 4. Each score has a corresponding risk rating which directly reflects the level of comfort that the Governance Hub has in the organisation's approach to Risk Management. Scores and risk ratings are given as detailed below:

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