

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	23 November 2017
REPORT TITLE	ALEO Assurance
REPORT NUMBER	CG/17/138
DIRECTOR/HOS	Fraser Bell – Head of Legal and Democratic Services
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1. PURPOSE OF REPORT

- 1.1 To provide an update on the Arm's Length External Organisation (ALEO) Assurance Hub meetings of 1 November and 9 November 2017 and to outline the Hub's level of assurance on the six ALEOs within its remit and future oversight arrangements.
- 1.2 To provide an update on Audit Scotland's ongoing Performance Review of ALEOs including their visit to Aberdeen on 1 November 2017.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- (a) Note the level of assurance provided by each ALEO on risk management, financial management and governance;
- (b) Note the future oversight arrangements for each ALEO and to further note that this had been predicated on the level of risk to the Council and the level of assurance provided by the ALEO;
- (c) Instruct the Head of Commercial and Procurement Services to discuss with ALEOs, during the ongoing review of Service Level Agreements, the possibility of holding Board meetings in public where appropriate ;
- (d) Instruct the Head of Commercial and Procurement Services to discuss with ALEOs, during the ongoing review of Service Level Agreements, internal audit arrangements or, where appropriate, the undertaking of audit needs assessments;

- (e) Note that Assurance Hub officers will discuss any outstanding issues with representatives of each ALEO view a view to improving the assessment ratings at the next Hub meeting; and
- (f) Note the update on the Audit Scotland Performance Review of ALEOs.

3. BACKGROUND/MAIN ISSUES

ALEO Assurance Hub Meetings of 1 and 9 November 2017

- 3.1 At its meeting on 27 June 2017, the Audit, Risk and Scrutiny Committee agreed to adopt the Assurance Hub model as the Council's system of oversight for ALEOs in areas of risk management, financial management and governance. On 26 September 2017 the Committee approved the ALEO Assurance Framework including the Hub's terms of reference.
- 3.2 The Hub has adopted a proportionate and risk based approach. It receives assurance from ALEOs through exception reporting which allows it to assess the level of risk an ALEO poses to the Council. The reporting is based on the degree of assurance provided on each ALEO's financial; risk management and governance arrangements. The exception report template is attached as **Appendix A**.
- 3.3 The membership of the Hub consists of officers representing Performance and Risk; Finance; and Democratic Services. ALEO Service Leads attended the Hub meeting on 1 November 2017 as advisers and Internal Audit and Audit Scotland as observers.
- 3.4 The ALEOs included within the Hub's remit are:
 - (a) Aberdeen Heat and Power;
 - (b) Aberdeen Performing Arts;
 - (c) Aberdeen Sports Village;
 - (d) Bon Accord Care;
 - (e) Garthdee Alpine Sports; and
 - (f) Sport Aberdeen.
- 3.5 The Hub's assessment of each ALEO has been attached as **Appendices B – G**. The Committee should also note that the Hub reviewed the Internal Audit report on ALEO Management of Services presented to Committee on 26 September 2017 and the Barclay Report which may have significant financial implications for charitable ALEOs in terms of ongoing relief from non-domestic rates. A report on the Barclay Review of non-domestic rates will be presented to the Finance, Policy and Resources Committee on 1 December 2017.
- 3.6 The Hub also conducted a scan of the strategic environment to proactively gauge if strategic risks could be anticipated in areas such as health and safety; procurement; and human resources that may have implications for all ALEOs in the medium term. Issues covered included the provisions of the Gender Representation on Public Boards (Scotland) Bill which is currently progressing through the Scottish Parliament; and implications relating to the

UK's decision to leave the EU as a significant number of UK regulations were derived from EU directives.

- 3.7 Following the first meeting of the Assurance Hub, the Hub noted that the new arrangements for receiving assurance from ALEOs provided a more efficient and effective approach in comparison to previous oversight arrangements. Officers also agreed that the standard of responses from ALEOs could be more consistent. To encourage best practice ahead of future Assurance Hub meetings, a template for best practice will be circulated amongst ALEOs for reference. The Hub's operation will continue to be monitored on an ongoing basis to ensure it remains efficient, productive and able to fulfil its purpose to provide assurance on ALEO governance to the Committee.
- 3.8 During the first Hub cycle, two ALEOs submitted their exception reports after the reporting deadline. A lack of capacity at Garthdee Alpine Sports over the October school holidays resulted in their late submission of information requested. Secondly, Aberdeen Sports Village's submission was late following a contention that they are not a Council ALEO and should not be required to report to the Hub or a Council committee. It should be noted that there is no legal or national definition of an ALEO and responsibility for designating ALEO status rests with local authorities. As set out in the Terms of Reference approved by Audit, Risk and Scrutiny Committee, the Council has approved the definition adopted by Audit Scotland which defines ALEOs as '*companies, charities and other bodies that are separate from the Council but subject to its control or influence*'.
- 3.9 The list of ALEOs subject to the Assurance Hub will be reviewed by the Head of Legal and Democratic Services in 2018 as part of the annual review of the Assurance Hub's Terms of Reference. In the meantime, Council officers will continue to work collaboratively with ALEOs balancing their status as separate legal entities against the Council's requirement for assurance to help safeguard the Council's credit rating and to comply with the Following the Public Pound guidance.
- 3.10 The Committee should note that the Hub is one strand in a wider strategy on ALEO governance which includes ALEOs reporting financial information to the Finance, Policy and Resources Committee and service performance to the relevant Council committee. ALEOs also receive Council support with strategic and business planning through their participation in the ALEO Strategic Partnership. These individual components form the ALEO Assurance Framework.
- 3.11 The accounts of Aberdeen Sports Village; Bon Accord Care; and Sport Aberdeen are within the Council's group accounts and these will be reported to the next Finance, Policy and Resources Committee on 1 December 2017 to provide additional assurance with regards to the Council's bond issue.
- 3.12 Legal officers within Commercial and Procurement Services continue to review ALEO Service Level Agreements which aim to give effect to the ALEO Assurance Framework.

Update on the Audit Scotland Performance Review of ALEOs

- 3.13 Audit Scotland has selected Aberdeen City Council to be part of their sample on how Councils monitor the way in which ALEOs achieve Council objectives and demonstrate value for money. The Performance Audit will also review the Council's governance arrangements in relation to ALEOs as well as how ALEOs report performance to the Council.
- 3.14 Audit Scotland have advised that they are interested in the Council's use of Bon Accord Care given the recent rise of social care ALEOs as well as a wider audit of sport and culture ALEOs to enable them to monitor performance trends across Scotland. They have also outlined their intent to review the Council's rationale for establishing Aberdeen Heat and Power as they are interested in the development of ALEOs with commercial remits.
- 3.15 Audit Scotland conducted on-site work in Aberdeen on 31 October and 1 November 2017 where they met with key representatives involved in the oversight of ALEOs including elected members; finance, risk and governance officers and representatives from the Integration Joint Board and Aberdeen City Health and Social Care Partnership.
- 3.16 The Performance Review report is due to be presented to the Accounts Commission and published in May 2018.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 A review of ALEO service level agreements is currently being undertaken by solicitors within Commercial and Procurement Services. The introduction of a new approach to monitoring ALEOs will be taken into consideration during this review.
- 5.2 A number of ALEOs have questioned their status as Council ALEOs and this may have legal and contractual implications for the Council. Agreement on ALEO status will be subject to discussions due to take place between the Council and external organisations during the ongoing review of service level agreements.
- 5.3 The Hub will support the Council's governance with regards to the bonds on the London Stock Exchange in that it will identify any projects and/or initiatives

that could influence investment decisions of the bond holders or the Council's credit rating and ensure that the appropriate governance is put in place.

6. MANAGEMENT OF RISK

- 6.1 **Financial Risk** – The Hub will mitigate financial risk by putting in place monitoring arrangements that assess systems of financial management, propriety of expenditure and compliance with following the public pound guidance.
- 6.2 **Employee Risk** – No significant risk.
- 6.3 **Customer/Citizen Risk** – The Hub will mitigate risk to customers and citizens by helping to ensure that risks were being managed appropriately in line with statutory requirements and industry standards to ensure ALEOs can continue to operate safely and responsibly within local communities.
- 6.4 **Environmental Risk** – No significant risk.
- 6.5 **Technological Risk** – No significant risk.
- 6.6 **Legal Risk** – There is a legal risk of external organisations determining they are not Council ALEOs and of this leading to non-co-operation or dispute. The Council intends to review ALEO service level agreements to ensure they remain relevant, fit for purpose, take account of recent legislative and regulatory change and provide for agreement on the question of ALEO status.
- 6.7 **Reputational Risk** – Whilst aspects of service delivery have been assigned to various ALEOs, the responsibility for statutory service provision remains with the Council. Discretionary services also carry an element of reputational risk through association. It is therefore important that the relationship between the Council and ALEOs is managed effectively.

7. IMPACT SECTION

Economy

Council ALEOs contribute to the local economy through employment and the provision of services. The terms of reference provide the Assurance Hub with the authority to scrutinise areas of corporate governance to ensure ALEOs can continue to operate effectively within the local economy.

People

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

Place

No significant implications on place have been identified.

Technology

No significant implications on technology have been identified.

8. BACKGROUND PAPERS

CG/17/073 – ALEO Operating Model, Audit, Risk and Scrutiny Committee, 27 June 2017

CG/17/108 – ALEO Assurance Hub: Terms of Reference, 26 September 2017

9. APPENDICES

Appendix A: ALEO Assurance Hub Exception Report Template

Appendices B-G: ALEO Assurance Hub Reports

10. REPORT AUTHOR DETAILS

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