

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	4 December 2018
REPORT TITLE	ALEO Assurance Hub Annual Review
REPORT NUMBER	GOV-18-235
CHIEF OFFICER	Fraser Bell
REPORT AUTHOR	Iain Robertson
TERMS OF REFERENCE	Remit - 1.2

1. PURPOSE OF REPORT

- 1.1 To present an updated terms of reference for the ALEO Assurance Hub for discussion, consideration and approval and to present the associated annual work plan for information.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Approve the revised ALEO Assurance Hub Terms of Reference attached as **Appendix A**; and
- 2.2 Note the ALEO Assurance Hub Work Plan for 2019 attached as **Appendix B**.

3. BACKGROUND

- 3.1 The ALEO Assurance Hub is one component of the wider ALEO Assurance Framework which also includes:-
- (a) ALEOs reporting their annual business plans to the Strategic Commissioning Committee which has a remit to approve all external commissioning activity by the Council, including the approval of service specifications, performance frameworks and outcomes. This includes commissioning activities relating to Arm's Length External Organisations (ALEOs);
 - (b) Financial reporting on Tier 1 ALEOs on a quarterly basis to the City Growth and Resources Committee to provide additional assurance on

their financial sustainability in line with the Council's bond governance arrangements;

- (c) An ALEO Strategic Partnership which is a forum consisting of senior Council officers and ALEO Managing Directors that meets on a six weekly basis to discuss strategic and business planning, with a view to strengthening the corporate relationship between the Council and its ALEOs; and
 - (d) Representatives of the Head of Commercial and Procurement Services, known as Service Leads being assigned to each ALEO to provide them with a single point of contact at the Council. Service Leads will be the Council's primary liaison officer with ALEOs and will be in regular contact with ALEOs to discuss strategic, operational and performance matters.
- 3.2 The ALEO Assurance Hub's terms of reference were approved by Committee on 26 September 2017. The Hub aims to balance the Council's need for assurance with an ALEO's right to govern themselves as independent entities, with their own Boards; management structures; auditors; and regulators.
- 3.3 The Hub has adopted a proportionate and risk based approach and receives assurance from ALEOs through exception reporting which allows it to assess the level of ALEO risk to the Council. The reporting is based on the degree of assurance provided on each ALEO's financial management; risk management and governance arrangements.
- 3.4 Audit Scotland's report on *How councils use arms-length organisations* reported that all sample councils had appropriate governance processes for overseeing ALEOs but more effective practice included scrutiny proportionate to the risks involved, and clear roles and responsibilities for councillor and officer oversight. Audit Scotland particularly highlighted Aberdeen City Council's ALEO Assurance Hub model as an example of effective practice in the oversight of ALEOs.
- 3.5 Following a review of the Assurance Hub's terms of reference undertaken by Hub officers which took account feedback provided by key stakeholders such as Elected Members; ALEO representatives; and relevant Council officers, in addition to findings from Audit Scotland's report on ALEOs: it is proposed that the scope of the Hub's remit be widened within the existing parameters of risk management; financial management; and governance.
- 3.6 It is proposed that the Hub continues to seek assurance on ALEOs information governance arrangements due to changes in Data Protection legislation, and for it to begin to request assurance from ALEOs on how they help the Council meet its PREVENT Strategy obligations. The Hub also intends to seek assurance from ALEOs on how they intend to meet Audit Scotland recommendations, with particular focus on strengthening

accountability and transparency; and increasing service user involvement in the design and delivery of public services.

- 3.7 The Hub will continue to monitor standing items such as management trading accounts and risk registers at each meeting; in addition to following up on areas where further assurance was required or where an aspect of ALEO governance posed a material risk to the Council.
- 3.8 The revised terms of reference, attached as **Appendix A**, sets out the purpose and remit of the Hub. The Work Plan attached as **Appendix B**, outlines specific areas the Hub will request assurance on during 2019, including rationales for seeking this information, with particular reference to decisions taken at Council meetings; audit reports; and the Council's corporate risk register.
- 3.9 The Assurance Hub is next scheduled to meet on 13 December 2018 and will report to the next Audit, Risk and Scrutiny Committee on 14 February 2019.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 A review of ALEO service level agreements is currently being undertaken by Commercial and Procurement Services. The implementation of the Assurance Hub has been taken into consideration during this review.
- 5.2 The Hub will help identify any projects and/or initiatives that could influence investment decisions of bond holders or the Council's credit rating and ensure that the appropriate governance is put in place. This adds to the Council's existing bond governance arrangements.

6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	Financial Failure of ALEOs impacting on the Council and its credit	(L)	ALEOs report financial performance and governance to their boards and present

	rating.		their annual accounts for scrutiny by an external auditor. One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs.
Legal	<p>ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes.</p> <p>Data Protection Compliance</p>	(L)	<p>Commercial and Procurement Services are currently reviewing ALEO service level agreements to ensure they remain robust and fit for purpose.</p> <p>The Strategic Commissioning Committee will have oversight of how ALEOs are achieving Council outcomes and complying with the terms of their service level agreements.</p> <p>The Information Management team and Legal Services provide support and advice to the Hub on the steps ALEOs are taking on data protection compliance in order for the Hub to provide assurance to Committee on ALEOs' management of this risk.</p>
Employee	The Hub is not sufficiently resourced and therefore unable to fulfil its functions and duties.	(L)	<p>The Assurance Manager has been identified as the Chairperson of the Hub.</p> <p>The Hub requires only three other officers to provide assurance on Risk Management, Financial Management and Governance. The Hub's membership has been stable throughout its first year of operation.</p> <p>ALEO Service Leads also provide ongoing support to ensure that the Hub can fulfil</p>

			<p>its functions and duties.</p> <p>The Corporate Risk Lead will provide operational support to the Hub.</p>
Customer	The Council's customers are not aware of how the Council uses ALEOs to deliver public services.	(M)	The Hub's terms of reference have been updated to address recommendations made by Audit Scotland in its report on <i>How councils use arms-length organisations</i> to provide assurance on the accountability and transparency of ALEO governance and decision making.
Environment	No direct risks arising from the report's recommendations.		
Technology	Data Protection Compliance.	(M)	The Hub will continue to seek assurance on ALEOs information governance arrangements put in place to comply with Data Protection legislation due to its complexity and ongoing nature.
Reputational	ALEO corporate governance or service delivery failure has a negative impact on the Council's reputation.	(L)	<p>The ALEO Assurance Hub provides assurance to the Audit, Risk and Scrutiny Committee on each ALEO's governance and approach towards financial management and risk management.</p> <p>Tier 1 ALEOs financial performance is incorporated into the Council's quarterly financial performance report to the City, Growth and Resources Committee providing further assurance on financial performance.</p> <p>The Strategic Commissioning</p>

		<p>Committee will have oversight of ALEO contractual compliance and delivery of outcomes.</p> <p>The Council has established an ALEO Strategic Partnership which is a six-weekly forum attended by senior Council officers and ALEO Managing Directors to discuss strategic and business planning; and manage reputational issues.</p>
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7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

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

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

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

10. APPENDICES

Appendix A – ALEO Assurance Hub revised terms of reference; and
Appendix B – ALEO Assurance Hub Work Plan for 2019.

11. REPORT AUTHOR CONTACT DETAILS

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