

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny
<b>DATE</b>	29 September 2021
<b>REPORT TITLE</b>	ALEO Assurance Hub
<b>REPORT NUMBER</b>	GOV-21-220
<b>CHIEF OFFICER</b>	Fraser Bell
<b>REPORT AUTHOR</b>	Vikki Cuthbert
<b>TERMS OF REFERENCE</b>	Remit - 1.2

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### 1. PURPOSE OF REPORT

To provide assurance on the risk management, financial management and governance arrangements of Arm's Length External Organisations (ALEOs) within the ALEO Assurance Hub's terms of reference.

### 2. RECOMMENDATIONS

That the Committee:-

- 2.1 Notes the level of assurance provided by each ALEO on risk management, financial management and governance; and
- 2.2 Notes that Assurance Hub officers and ALEO Service Leads will discuss any outstanding issues identified in the appendices and identified at the Audit, Risk and Scrutiny Committee with ALEO representatives, with a view to further improving the assessment ratings at the next Hub meeting.

### 3. BACKGROUND

- 3.1 The report provides an overview of the ALEO Assurance Hub's most recent cycle of scrutiny following the Committee's endorsement of an oversight approach which balanced the Council's need for assurance with an ALEO's right to govern itself as an independent entity.
- 3.2 The Hub continues to adopt 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.
- 3.3 The Hub met in August and identified the following key assurance areas, in accordance with the workplan previously reported to the Committee:-

## **Governance**

1. Assurance that the organisation has adequate workforce and succession planning arrangements in place.
2. Assurance on training and development of Board members and workforce to align the needs of the organisation to skillset.
3. Follow ups to some gaps identified at the last meeting were also sought:  
**Bon Accord Care** – update on the Scheme of Governance audit plan.  
**Aberdeen Sports Village** – Arrangements within governance documentation for delegated authority in the event of an emergency.  
**Aberdeen Heat and Power** – Arrangements within governance documentation for delegated authority in the event of an emergency.

## **Finance**

1. Assurance that accounts are being managed within budget and the level of financial risk to the Council is low, through quarterly trading accounts.
2. Assurance that ALEOs have prepared a medium-term financial plan or had incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures.
3. Assurance that accounts are being managed within budget, are in line with statutory requirements and that the level of financial risk to the Council is low, through presentation of audited annual accounts for 2019-20 and draft accounts for 2020-21.
4. Evidence that ALEOs have a strategy in place to meet the short to medium term effects of Covid and EU Exit as they affect financial risk.

## **Risk and Resilience**

1. Risk register and evidence that it has been reviewed and updated. If EU Exit risks have been closed off, evidence of this. Reference to recruitment of EU nationals (process) and any risks remaining.
  2. Internal and external audit plans and evidence of the process for monitoring and completing internal and external audit recommendations.
  3. Assurance that ALEOs have an established risk appetite which is reflected in decision making structures.
  4. Assurance that the organisation is managing the impacts of EU Exit, that risks are identified and controls are in place.
  5. Assurance that appropriate business continuity arrangements are in place including testing and exercising.
- 3.4 The Hub's assessment of each ALEO, based on the information returned, has been attached within the summary report at **Appendix B**. The Assurance Standards and Risk Ratings are set out at **Appendix A**. **Appendices C-G** provide a summary of requests to and responses from, each ALEO, along with a breakdown of risk ratings.
- 3.5 The pandemic is evidently continuing to have impact on each ALEO, most notably for Aberdeen Performing Arts (APA) from the uncertainty over the future operating environment and subsequent business planning. However, the Hub is taking adequate assurance that APA is maximising each funding opportunity available, retaining a tight control over their financial stewardship arrangements, and continuing to ensure that risks are recorded, managed and

mitigated. The risk rating is medium in respect of financial governance, an improvement on the previous cycle of reporting due to the scenario planning around physical distancing and phased reopening from September, but this will remain an area of close scrutiny for the Council. Sport Aberdeen and Aberdeen Sports Village have faced similar challenges over the period of the pandemic and are well positioned in terms of recovery due to financial mitigations in place, however, the uncertainty over future funding creates challenges for long-term planning. Bon Accord Care have indicated that they are reviewing their long-term strategy, learning lessons from the pandemic and its impact on their operations. The appointment of a new Managing Director is a positive step in this journey and the Hub will look for assurance in the next cycle of meetings that improvements continue to be made in terms of governance.

3.6 At its May meeting, Committee instructed the Assurance Manager to seek feedback from the ALEOs on how helpful they find the Assurance Hub process. Following the meeting, a short survey was issued. Four ALEOs responded to this, all confirming that they find the process useful and adding commentary on what could be improved.

3.6 The Assurance Manager and Chief Officer – Governance met with the ALEOs on 15<sup>th</sup> September to follow up on the feedback. There was agreement that the process is well understood, well established and necessary. ALEOs welcome the workplan schedule which provides them with clarity on the content and timing of the information required. It is also recognised as a good model for local government and ALEOs and provides assurance not only to the Council but to the ALEO Boards themselves, where gaps can become evident, and then closed, through the Hub's reporting process. That said, there are areas for improvement which will be further explored by the Assurance Manager before the presentation of the ALEO Assurance Hub Workplan to this committee in February 2022: That said, there are some areas for improvement:

- Increasing joint planning of the annual Hub workplan would be helpful. This could be achieved by holding 1-2-1 meetings between the Hub and each ALEO before the workplan is submitted to Committee for approval each year. This would help the Hub to identify the most appropriate areas for review for each ALEO and to frame its questions in a way which extracts the most relevant information for assurance purposes taking into account the risk profile of each ALEO. The Assurance Hub may also benefit from receiving an outline from each ALEO on what the year ahead entails for them;
- ALEOs would also welcome the chance to discuss the Hub's risk ratings prior to their submission to this Committee, as there may be further clarifications which would be helpful;
- It was acknowledged that one size cannot fit all and that it may be useful to develop bespoke reporting arrangements for each ALEO. The Council is required to provide annual assurance to its external auditors, to the Credit rating agency and as part of the Annual Governance Statement, in respect of ALEOs. However, there may be scope to offer more flexibility in the process to allow each ALEO to report to the Hub in line with their own reporting schedules.

- The Hub could use the financial data held on each ALEO more constructively, before seeking additional information in each cycle. This would prevent repetition of the similar asks from different parts of the Council.
- The Council could explore ways of using the ALEOs information publicly to help raise community awareness of the process and also of the status of each ALEO. It was felt that there can sometimes be a lack of recognition of the good work being done and the extent to which ALEOs are supporting the Council in the achievement of its objectives; and
- Occasional attendance from the Hub at Board meetings may provide additional assurance and help with a shared understanding of ALEO business and priorities. The Assurance Manager attended the Board of Sport Aberdeen on 15<sup>th</sup> September, which was a helpful exercise.

3.7 The proposed ALEO Assurance Hub Workplan will be presented to the Audit, Risk and Scrutiny Committee meeting on 22 February 2022 for noting.

3.8 Training on civil contingencies obligations, including ALEOs' contribution to these and the PREVENT strand of the CONTEST strategy, is to take place in October. An update on this will be provided in the next round of Hub meetings.

#### **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 Legal officers within Commercial and Procurement Services have reviewed ALEO Service Level Agreements which aim, amongst other things, to facilitate the ALEO Assurance Framework. These have been modified to recognise the requirements of the Assurance Hub to receive assurance regarding systems of governance, company outcomes and risk management and mitigation.

5.2 The Hub will help identify any projects and/or initiatives that could influence investment decisions of Bond holders or the Council's credit rating and ensure that the appropriate governance is put in place. This adds a further layer of assurance to the Council's existing Bond governance arrangements.

#### **6. MANAGEMENT OF RISK**

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

			assurance to Committee on ALEOs' management of this risk.
<b>Operational</b>	Failure of ALEOs to deliver services according to agreed Service Level Agreements	M	Monitored by Strategic Commissioning Committee which has oversight of ALEO strategic business plans.
<b>Financial</b>	Financial failure of ALEOs impacting on the Council and its credit rating.	M	ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor. One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs.
<b>Reputational</b>	Impact of performance or financial risk on reputation of ACC.	L	Regular reporting to this Committee from the Hub provides adequate control.
<b>Environment / Climate</b>	No direct risks arising from the report's recommendations.		

## 7. OUTCOMES

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

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Impact Assessment</b>	Full impact assessment not required.
<b>Data Protection Impact Assessment</b>	Not required.

## 9. BACKGROUND PAPERS

None.

## **10. APPENDICES**

**Appendix A** – Assurance Standards and Ratings

**Appendix B** – Summary of ALEO Risk Ratings

**Appendix C** – Aberdeen Heat and Power

**Appendix D** – Aberdeen Performing Arts

**Appendix E** – Aberdeen Sports Village

**Appendix F** – Bon Accord Care

**Appendix G** – Sport Aberdeen

## **11. REPORT AUTHOR CONTACT DETAILS**

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