

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	30 June 2022
REPORT TITLE	ALEO Assurance Hub
REPORT NUMBER	GOV-22-119
CHIEF OFFICER	Fraser Bell
REPORT AUTHOR	Vikki Cuthbert
TERMS OF REFERENCE	Remit - 1.2

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.
- 2.3 Notes that the Council agreed to form a Joint Venture with bp to develop a hydrogen hub in the city, agrees that the ALEO Assurance Hub provide oversight of bp Aberdeen Hydrogen Energy Limited, and notes that the Assurance Hub Terms of Reference will be amended accordingly.

3. CURRENT SITUATION

- 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 April and identified the following key assurance areas, in accordance with the workplan previously reported to the Committee:-

Governance

1. Details of any recent or planned structure changes and training plans for Board members, to provide assurance around capability, capacity, conduct and induction of new members.
2. Assurance required that key policies are in place with a review schedule in place, and that policies are developed using a risk-based approach.

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.

Risk and Resilience

1. Assurance required that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy, are kept under regular review with control actions monitored to completion and are linked to the achievement of outcomes for the ALEO and the Council. This area will be explored in more depth in the December cycle, however ALEOs were asked to provide a high-level summary of the current impact of the cost of living and longer lasting impacts of COVID.
2. Internal and external audit plans and evidence of the process for monitoring and completing internal and external audit recommendations. Assurance sought that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council, through confirmation that there were no high graded audit recommendations on the back of internal or external audit, or any regulatory activity, in the last 12 months.

- 3.4 The Assurance Standards and Risk Ratings are set out at **Appendix A**. The Hub's assessment of each ALEO, based on the information returned, has been attached within the summary report at **Appendix B**. **Appendices C-G** provide a summary of requests to and responses from, each ALEO, along with a breakdown of risk ratings. These have been agreed with the ALEOs, with follow up 121s offered to ensure agreement on the position taken by the Hub.

- 3.5 Medium risk ratings reflect the commercial and economic challenges resulting from COVID recovery and the increases in costs of living. This is taking effect on all ALEOs to some extent or another, however their financial stewardship arrangements are robust and present as low risk to the Council.

- 3.6 On 3 February 2022, the City Growth and Resources Committee agreed to form a Joint Venture (JV) with bp to develop a hydrogen hub in the city. The JV, bp Aberdeen Hydrogen Energy Limited, is a company with two shareholders: bp and Aberdeen City Council. It is likely to meet the Group Entity test and that will form a basis for incorporation of its financial performance within the Chief Finance Officer's quarterly reporting to City Growth and Resources Committee and for incorporation within the budget annual accounts.
- 3.7 The Council will require to have arrangements in place that can provide assurance back to the Council over the JV's arrangements for governance, risk and finance. Given that the JV meets the Council's definition of an ALEO - that is a company that is separate from the Council but subject to its control or influence - it is proposed that the ALEO Assurance Hub provide the necessary oversight.
- 3.8 It is anticipated that the Hub's report scheduled for Audit, Risk and Scrutiny Committee on 13 December 2022 will incorporate commentary of the JV.

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. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <small>*taking into account controls/control actions</small>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Ability of ALEOs to support the Council in meeting its strategic outcomes.	The Assurance Hub process mitigates against this risk by monitoring ALEO contribution to ACC strategic outcomes. This includes review of ALEO risk registers.	M	Yes
Compliance	ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes. Non-compliance against GDPR, Health and Safety and other statutory responsibilities.	Commercial and Procurement Services has reviewed ALEO service level agreements to ensure they remain robust and fit for purpose. The Strategic Commissioning Committee has oversight of how ALEOs are achieving Council outcomes and complying with the terms of their service level agreements. 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	L	Yes

		<p>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 assurance to Committee on ALEOs' management of this risk.</p>		
Operational	Failure of ALEOs to deliver services according to agreed Service Level Agreements	Monitored by Strategic Commissioning Committee which has oversight of ALEO strategic business plans.	L	Yes
Financial	Financial failure of ALEOs impacting on the Council and its credit rating.	<p>ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor.</p> <p>One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs.</p> <p>City Growth and Resources Committee monitors financial performance and viability, including business planning.</p>	L	Yes
Reputational	Impact of performance or financial risk on reputation of ACC.	Regular reporting to this Committee from the Hub provides adequate control.	L	Yes

Environment / Climate	Service delivery impacting negatively on City net zero targets.	Regular reporting to this Committee from the Hub provides adequate control.	L	Yes
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7. OUTCOMES

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

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required.
Data Protection Impact Assessment	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

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