

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	ALEO Assurance Hub Update
REPORT NUMBER	COM/23/180
DIRECTOR	Gale Beattie
CHIEF OFFICER	Vikki Cuthbert
REPORT AUTHOR	Vikki Cuthbert
TERMS OF REFERENCE	Remit 1.3

1. PURPOSE OF REPORT

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

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the level of assurance provided by each ALEO on governance arrangements, risk management and financial management;
- 2.2 Notes that the report incorporates Hub officers' initial levels of assurance of the governance arrangements, risk management and financial management of bp Aberdeen Hydrogen Energy Limited;
- 2.3 Notes that the Assurance Hub officers and ALEO Service Leads will discuss any outstanding issues specified 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. 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 balances 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 governance arrangements, risk management and financial management.

- 3.3 The Hub met in April and identified the following key assurance areas, in accordance with the workplan previously reported to the Committee. Specific follow-ups were sought from each ALEO in furtherance of gaps in assurance from the previous cycle, and these are referenced specifically in the appendices.

Governance Arrangements

1. Details of current or planned training and development plans for Board members and any changes to Board structure.
2. Evidence that declarations of interest are regulated by policies and procedures.

Risk & Resilience Management

1. A short summary of the risk environment, including risks that have been added, escalated or de-escalated, and an overview of activities and controls in place across the three lines of defence (do-ers, helpers, checkers).
2. The latest internal and/or external audit programmes and confirmation that there have been internal control failures in the last 12 months.

Financial Management

1. Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.
2. Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.
3. Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.

- 3.4 The Assurance Standards and Risk Ratings are set out at Appendix A. The Hub's overall assessment of each ALEO, based on the information returned, has been attached within the summary report at Appendix B. Appendices C-H 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.

- 3.5 As reported in December 2022, medium risk ratings reflect the current commercial and economic challenges including continued recovery from the pandemic, energy market volatility and inflationary pressures/cost of living. These factors are affecting each ALEO to varying degrees however, the Hub is satisfied that financial stewardship arrangements continue to be robust and present as low risk to the Council as possible.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations in 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 ALEO Assurance 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

7.1 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) *taking into account controls/control actions	*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	Commercial and Procurement Services has reviewed ALEO service level agreements to ensure	L	Yes

	<p>ALEOs are not delivering on Council outcomes.</p> <p>Non-compliance against GDPR, Health and Safety and other statutory responsibilities.</p>	<p>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 assurance to Committee on ALEOs' management of this risk.</p>		
Operational	<p>Failure of ALEOs to deliver services according to agreed Service Level Agreements</p>	<p>Monitored by Strategic Commissioning Committee which has oversight of ALEO strategic business plans.</p>	L	Yes
Financial	<p>Financial failure of ALEOs</p>	<p>ALEOs report financial performance and governance to</p>	L	Yes

	impacting on the Council and its credit rating.	<p>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>		
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 or operations impacting negatively on City net zero targets.	Regular reporting to this Committee from the Hub provides adequate control.	L	Yes

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

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

10. BACKGROUND PAPERS

None

11. APPENDICES

- 11.1 **Appendix A** – Assurance Standards and Risk 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** – bp Aberdeen Hydrogen Energy Limited
- Appendix H** – Sport Aberdeen

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