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Aberdeen City Council

**Report to Members and the
Controller of Audit**

2009/10

External Audit Report No: 2010-05

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Restriction on Use

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of Aberdeen City Council's financial statements. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- this report has been prepared for the sole use of Aberdeen City Council and their Audit and Risk Committee and will be shared with the Accounts Commission and Audit Scotland
- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes



1. Executive summary

Introduction

1. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of Aberdeen City Council (the Council) for the year ended 31 March 2010.

Financial statements

2. Our opinion on the financial statements of the Council for the year ended 31 March 2010 is unqualified. The financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 Statement of Recommended Practice (SORP), of the financial position of the Council and its group and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
3. The Council failed to meet the statutory three-year breakeven target for the letting of industrial, commercial and other properties significant trading operation (STO). All other STOs met this target.
4. We were not obliged to make any adverse comment on the Council and its group's Annual Governance Statement. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.
5. The Council submitted its draft Whole of Government (WGA) return, based on the draft accounts, to the Scottish Government and to us by the due date, 31 July 2010. The audit certification deadline for submission of the final WGA return to the Scottish Government of 1 October 2010 was not achieved. The audit certificate for the WGA was signed on the 4 October 2010.

Use of resources

6. The Council's General Fund balance at 31 March 2010, including the Housing Revenue Account (HRA), was £37.735 million, £5.684 million more than the equivalent figure at 31 March 2009. The Council has reported a favourable position in comparison with the budgeted use of balances of £15.766 million. The improved position at 31 March 2010 is the result of three main elements; an operational budget surplus of £8.730 million, exceptional items relating to VAT recoveries of £6.125 million and £4.508 million additional funds received through the consent to borrow.
7. The Housing Revenue Account (HRA) balance at 31 March 2010 was £2.087 million more than at 31 March 2009. The HRA budget for financial year 2009/10 was to achieve breakeven.
8. Commitments against the General Fund balance, excluding HRA, total £18.229 million leaving an uncommitted balance at 31 March 2010 of £10.928 million. This represents 2.5% of the net revenue budget for 2010/11 and is within the Council's approved limits. Commitments against the HRA balance total £3.052 million leaving an uncommitted balance of £5.526 million. The overall total uncommitted balance is £16.454 million.
9. The Group Balance Sheet shows the Total Assets less Liabilities to be a net asset position of £566.672 million at 31 March 2010. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.



1. Executive summary

10. The Council's pension liabilities at 31 March 2010, estimated by the Actuary, exceeded its share of pension scheme assets by £299.732 million (2008/09 - £215.887 million). The adverse movement of £83.845 million is mainly the result of changes in the financial assumptions underlying the present value of the scheme's liabilities and the discount rates used. Future indexing changes from Retail Price Index to Consumer Price Index are expected to result in reduced pension liabilities in future years.
11. As reported in our previous Reports to Members, the Council has faced significant financial pressures. In setting its budget for 2010/11, the Council approved a range of savings and cost reductions of £25 million in order to achieve a balanced budget.
12. In his report **Revenue Budget 2010/11 Budget Monitoring** to the Finance and Resources Committee on 28 September 2010, the Head of Finance reported the projected outturn at the end of the year as a reduction in the General Fund balance of £0.8 million. As the 2010/11 budget had been set with the intent of increasing the balance on the General Fund, this would represent an adverse movement against budget of £4.4 million. Uncommitted General Fund balances at the year-end would then be £10.5 million, which is below the recommended balance of £11.2 million that the Council has previously set.
13. Work to develop a fully costed 5-year Business Plan for 2011/16, built on priority based budgeting principles, is almost complete. The Business Plan will be brought to the Finance and Resources Committee in December 2010 for consideration.

Governance and accountability

14. The Council's Local Code of Corporate Governance was last updated in 2006. Due to the changes made to the Council's decision making and management structures and to the Council's Standing Orders, a refreshed Local Code is currently being developed.
15. A further review of committee structures, undertaken in March 2010, agreed to continue with the present committee structure, with the exception of the Budget Monitoring Board, where it was agreed that this should be disbanded as its remit is now covered by the Finance and Resources Committee.
16. In the 2009/10 financial statements the Council has published a single Annual Governance Statement. In general, this Statement adopts the main elements of good practice. Some areas need to be developed further and these issues have been discussed with officers and will be included within our Year-end Management Letter for action.
17. For 2009/10 we concluded that we could place reliance on the work and findings of Internal Audit in all of the areas set out in our Risk Assessment, Annual Plan and Fee Proposal for 2009/10 (Annual Plan), Report 2010-01, issued in February 2010. Effective liaison with internal audit has ensured that duplication of audit effort has been minimised.
18. Almost all of the National Fraud Initiative (NFI) data matches have been investigated. Only 24 of the 3319 matches processed are still classified as in progress. A total of 30 frauds and 166 errors were identified with a combined value of £242,141 and the Council is taking steps to recover a total of £218,495 of this amount covering 189 cases. Arrangements are in place to provide the data for the 2010/11 NFI exercise.

1. Executive summary

Performance management and improvement

19. Work has continued throughout 2009/10 to further enhance the Council's performance management arrangements. This work has been helped considerably by improved clarity in the Council's planning hierarchy with clear linkages from the national outcomes down through the Community Plan and Single Outcome Agreement (SOA) into the Council's Interim Business Plan and then into individual service level Business Plans. Arrangements in place are sufficient to meet the Council's statutory duties to collect, record and publish a range of Statutory Performance Indicators.
20. The SOA for 2009 to 2012 was submitted to the Council in May 2009, and signed by The Aberdeen City Alliance (TACA) and the Scottish Government on 30 July 2009. A report was presented to the Corporate Policy and Performance Committee in September 2010 reporting the outturn performance and analysis for the measures included within the 2009/10 SOA.
21. Audit Scotland's report ***The Audit of Best Value and Community Planning – Progress Report*** published in July 2009 noted that the Council had taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings, although the full impact on the action taken to date had yet to flow through.
22. Progress in delivering the Corporate Improvement Plan (CIP), developed following the Audit of Best Value and Community Planning in 2008, was considered in preparing the Interim Business Plan for 2010/13. In December 2009 the Council reported that most of the improvement actions had been completed. The four actions which had not been completed at December 2009 were longer term actions and in order to further embed them in the Council's consolidated improvement agenda the actions were subsumed into the Interim Business Plan.
23. Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with the Council actions to date, is included at Appendix I.

Outlook

24. The most significant challenge facing the Council is the imminent reduction in available funding for financial year 2011/12 onwards. The Council has consulted widely and is in the final stages of developing a fully costed 5-year Business Plan for 2011/16, built on priority based budgeting principles. The Council believe this will allow them the flexibility to respond to the precise scale of the funding reduction when the situation becomes clearer later in the year. The Council has faced some difficult choices on how to manage the impending cuts in setting the 5-year Business Plan. The North East Chief Executive's Forum are meeting regularly to share thinking and to try to ensure that the interdependencies between financial and service reductions made by the individual organisations are understood and recognised
25. A number of changes in financial reporting are expected to apply from 2010/11 and beyond including the requirement for full compliance with International Financial Reporting Standards and the need for a Council decision around trust fund disclosures. The introduction of the mandatory Carbon Reduction Commitment Energy Efficiency Scheme is a potentially significant new area of cost for the Council and carries reputational risks which will require to be managed.



1. Executive summary

26. Following the publication of the Crerar report in 2007, the Scottish Government agreed to establish a simplified approach to delivering local government scrutiny. A local area network (LAN) has been established for each Council, comprising representatives of all scrutiny bodies who engage with the Council. The Shared Risk Assessment (SRA) for the Council has been completed and the resulting Assurance and Improvement Plan (AIP) for 2010-13 was presented to the Corporate Policy and Performance Committee in June 2010, and thereafter referred to the Audit and Risk Committee in September for interest. The final SRA and AIP was produced by the LAN and describes the various strands of scrutiny activity planned around corporate activities for the three financial years commencing 2010/11. In Year 1 of the rolling programme, 2010/11, we are required to carry out regular monitoring of the Corporate Improvement Plan (CIP) throughout the year.

Acknowledgements

27. Our audit has brought us in contact with a wide range of Council officers and members. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by officers and members in the discharge of our duties.



2. Introduction

Introduction

28. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of Aberdeen City Council (the Council), for the year ended 31 March 2010.
29. The framework under which we operate, under appointment by Audit Scotland, and our audit approach are as outlined in our Risk Assessment, Annual Plan and Fee Proposal for 2009/10 (Annual Plan), Report 2010-01 issued on 18 February 2010. The respective responsibilities of Council members, officers and auditors are set out in an Appendix to our Report to those charged with Governance on the audit of Aberdeen City Council 2009/10 (ISA 260 Report), Report 2010-04 issued on 30 September 2010.
30. Broadly the scope of our audit was to:
- provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission
 - review and report on the Council and its group's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position
 - review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value
 - review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information
31. Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

Audit activity and reporting

32. As part of our overall planning approach to the Council's annual audit we carried out a review of the key risks, national and local, facing the Council and reported how we would continue to monitor them during the year through attendance and review of Council and Community Partnership meetings and minutes and discussions with officers. The main risks were reported in our Annual Plan and where appropriate we have included an update on these risks in this report. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit this information has not been independently verified.
33. In accordance with our Annual Plan we reviewed the Council's key internal controls and have raised some issues during the course of the audit including matters highlighted in our Financial Statements Audit Plan (FSAP), Report 2010-02 issued on 27 May 2010 and our ISA 260 Report. We also plan to issue a separate detailed Management Letter covering specific issues relating to the financial statements.
34. We take this opportunity to remind you that external auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

3. Financial statements

Audit opinion

35. We are pleased to report that the target date of 30 September 2010 for the audit completion and the certification of the annual accounts was met. Our opinion on the financial statements of the Council for the year ended 31 March 2010 is unqualified.
36. In accordance with International Standard on Auditing (ISA) 260 we issued our ISA 260 Report, which was discussed with the Head of Finance and the Convener and Vice Convener of the Audit and Risk Committee on 30 September 2010. This report included our proposed audit certificate and detailed the agreed adjustments to the draft accounts arising from our audit, together with comments on the Council's accounting practices and accounting and internal controls. The report also summarises our findings in relation to the material risks and exposures previously identified in our Annual Plan and our FSAP.
37. We set out below a summary of the audit certification issues:
- the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Aberdeen City Council and its group at 31 March 2010 and its income and expenditure for the year then ended
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973
 - the Council failed to meet the statutory three-year breakeven target for the letting of industrial, commercial and other properties significant trading operation
 - the Annual Governance Statement complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Council's corporate governance and risk and control procedures.
38. A number of issues have been raised in our ISA 260 Report which require to be addressed by management. A debrief meeting was held on 27 October 2010 with the Head of Finance and the Corporate Accounting Manager to discuss these issues in detail, which will then allow an Action Plan to be developed to ensure that the issues are addressed prior to the preparation of the 2010/11 financial statements. The agreed Action Plan (which will form part of our Year-end Management Letter) will be presented to the Audit and Risk Committee in due course, along with regular reporting on progress against the agreed actions.
39. In our 2007/08 and 2008/09 Reports to Members and Management Letters we commented on the adequacy of the resources within the finance section to be able to maintain a robust financial system to produce accounts and other information which is both timely and accurate. We recommended that a review should be carried out of the current level of resources and skills mix within the finance team to ensure that they are adequate for the Council's needs. A new Head of Finance was appointed in May 2010, and some changes have been made to the staff structure within the finance team. This was further discussed at our debrief meeting.

Material risks and exposures

40. Our FSAP identified a number of material risks and exposures faced by the Council that we assessed might impact on the Council's accounts. Our ISA 260 Report provided a summary of the issues along with information on how they had been resolved. The following paragraphs provide a further update.

3. Financial statements

Whole of Government Accounts (WGA)

41. The legislative authority for WGA is contained in the Government Resources and Accounts Act 2000, which sets out a formal designation process. The Commencement Order for the publication of the WGA has been laid before Parliament and therefore 2009/10 is the first year that a full set of WGA statements will be published. Although the Act is not applicable in Scotland, the Scottish Government has agreed to provide the Treasury with equivalent information.
42. The UK Government's aim, in respect of WGA, is to develop a fully audited set of accounts covering virtually all of the UK public sector. WGA treats Government as if it were a single, consolidated entity by eliminating all significant transactions and amounts owed between public sector bodies and harmonising accounting policies. WGA is intended to present a true and fair view of Government activities.
43. The deadline of 31 July 2010 for the submission of the consolidation packs to auditors was met. However, the audit certification deadline of 1 October 2010 was not achieved, due to a delay by Council staff in posting all of the agreed audit adjustments into the WGA to ensure consistency with the audited financial statements. The audit certificate for the WGA was signed on 4 October 2010. Further comments on this will be provided in our Year-end Management Letter to finance staff, in order to ensure that adequate resources are put in place to meet this deadline in the future.

International Financial Reporting Standards (IFRS)

44. International Financial Reporting Standards (IFRS)-based financial instrument standards were adopted in the 2007 SORP. The 2009 SORP adopts the IFRS based approach to accounting for Public Finance Initiative (PFI) / Public Private Partnership (PPP) schemes from 2009/10. The SORP has been applied in accounting for the Council's 3Rs project, the first school became operational in 2009/10 and therefore a prior year adjustment was not required.
45. An IFRS-based Code of Practice on Local Authority Accounting has been prepared, which replaces the SORP from 2010/11 when local authorities and joint boards are required to fully adopt IFRS. The Code applies from 1 April 2010 and will bring about numerous significant changes to the Council's 2010/11 accounts.

R1 The Head of Finance and his team should ensure the necessary arrangements are in place to fully comply with the IFRS-based Code of Practice on Local Authority Accounting, which replaces the SORP and applies from 1 April 2010.

46. Authorities will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based Balance Sheet. The Council is currently considering the impact of lease data received in late summer 2010 before finalising the work for a restated opening Balance Sheet at 1 April 2009. Work has commenced on the restatement of the 2009/10 financial statements, with ongoing support being provided by external advisers. We will review the restatement work in due course and report our findings at an early stage.

PFI / PPP

47. Our audit testing confirmed that the Council's accounts made the appropriate SORP disclosures for the 3Rs PFI / PPP project and have taken into account the 2009 SORP changes. Some audit adjustments were made to the figures in the draft financial statements. Further details were included in our ISA 260 report.

3. Financial statements

Valuation of Council dwellings

48. The IFRS-based Code of Practice requires council dwellings to be valued according to Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors (RICS). RICS do not specify or recommend any one particular valuation to achieve a EUV-SH valuation. Generally two particular methodologies appear to be adopted in practice, Discounted Cash Flow (Income stream) and Beacon Approach (Adjusted vacant possession). The Council's dwellings are currently valued on an Existing Use Value – Social Housing basis using the Beacon Approach. The Council are currently reviewing the methodology adopted.
49. At a meeting on 16 August 2010 it was agreed that Local Authority (Scotland) Accounts Advisory Committee (LASAAC) would issue guidance requiring the use of a Beacon approach by 2015/16 at the latest. The guidance has now been issued and any review by the Council of the methodology adopted should take cognisance of this guidance.

Review of significant trading operations (STOs)

50. In accordance with the requirements of the Local Government in Scotland Act 2003 (the Act) the Council assessed its trading activities and determined that it had six Statutory Trading Operations (STOs). The results of the STOs are disclosed in the Council's Income and Expenditure Account and associated notes.
51. Five of the six STOs have met their three-year break-even target. Letting of industrial, commercial and other properties made a deficit in both the current and prior years which has resulted in it failing to meet the three-year break-even target. This is due to exceptional charges in respect of revaluation of specific investment properties over the past three years. These charges were required due to the changes in the 2007 SORP relating to Revaluation Reserves, whereby any reduction in value must be charged to the Income and Expenditure Account unless there has previously been a credit to the Revaluation Reserve for the same property. For further comment see paragraphs 71 to 73.

Financial Reporting Standards (FRS) 17 Pension costs

52. The Council included the appropriate disclosures in the accounts for FRS 17 pension fund liabilities including a non-adjusting post balance sheet event note to the accounts which reported the move from the retail to consumer price index as a basis for future public pension increases announced in the Emergency Budget in June 2010. This is expected to result in reduced pension liabilities in future years. For further comment see paragraphs 95 to 101.

Financial instruments

53. In accordance with the requirements of the 2009 SORP the Council made the appropriate accounting entries and disclosure notes in the accounts relating to financial instruments.
54. Further details of all the disclosures for financial instruments are included in note 13c to the Balance Sheet on pages 45 to 47 and in the Financial Instruments Disclosure Notes on pages 100 to 105. The fair values of all financial instruments have been disclosed in these notes based on information provided by the Council's professional advisers Sector.
55. In calculating the fair value of the Public Works Loan Board (PWLB) loans, Sector used the discount rates for new borrowing as per rate sheet number 063/10. The PWLB has also provided figures, calculated by reference to the "premature repayment" set of figures at 31 March 2010. This is significantly different from the Sector figures as follows:

Sector	£392.623 million
PWLB	£415.528 million
Difference	£ 22.905 million

The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is deemed acceptable.

3. Financial statements

Group accounts

56. The SORP requires authorities to prepare a full set of group accounts in addition to its single-entity accounts where there is an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and note 4 to the Group Accounts details its interest in other entities and the basis of consolidating the results within the Council's group accounts.

Trust Funds

57. Discussions have been ongoing for some time between the Office of the Scottish Charity Regulator (OSCR) and LASAAC regarding the staged application of the Charities (Scotland) Regulations 2006. These discussions are continuing and until they are concluded it is recommended that local authorities continue to make disclosures in respect of trust funds that are consistent with previous years. The disclosure requirement in the SORP, in respect of trust funds, is not included in the Code. However, failure by local authorities to disclose details of the nature and amount of trust funds in their accounts would necessitate the preparation and audit of separate accounts for charities in order to satisfy the requirements of section 106 of the Local Government (Scotland) Act 1973.

R2 Pending the outcome of discussions with OSCR the Council must decide between making the appropriate trust fund disclosures in the 2010/11 accounts and making arrangements for the separate audit of these funds.

58. In April 2010 the Office of the Scottish Charity Regulator (OSCR) wrote to LASAAC providing feedback on the 2008/09 submissions to OSCR for all Local Authorities. The feedback assessed submissions, which look at more than just the accounts information, against four categories; fully compliant (no councils achieved this grade), above average (10 councils), average (12 councils) and below average (8 councils). The Aberdeen City submissions fell within the "below average" band. The letter identifies that OSCR expect clear progress to be demonstrated by authorities. The 2009/10 information is due for submission by 31 December 2010.

R3 Officers and Trustees should consider how the trust fund information submitted to OSCR can be revised to achieve improvement.

Pension Fund

59. The Scottish Public Pensions Agency (SPPA) has issued *Local government pension scheme circular 5/2010 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010*. The main purpose of the amendment regulations is to add to *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* a new requirement for administering authorities to prepare a pension fund annual report from 2010/11.
60. Under current arrangements, the audit of pension fund accounts forms part of the audit of the administering Council's accounts, and the audit opinion covers both the Council's own accounts and the pension fund accounts. The new pension fund annual report will contain accounts prepared in accordance with proper practices, and it is proposed that these accounts will be subject to a separate audit. As such, the pension fund accounts will no longer be set out within the Council's main accounts. The Scottish Government has issued a consultation paper on this proposal. It is proposed that the new requirements would apply from 2010/11.

3. Financial statements

R4 Pending the outcome of Scottish Government consultation the Council should make the necessary preparations to publish a pension fund annual report by 1 December following the year end. In preparing and publishing the annual report, the Council is required to have regard to guidance issued by the Scottish Ministers.

Legality

61. Throughout our planned audit work we consider the legality of the Council's financial transactions. In addition the Head of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Council's management team, the financial transactions of the Council were in accordance with relevant legislation and regulation. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

62. A number of changes in financial reporting are expected to apply from 2010/11 and beyond
- full compliance with IFRS will be required
 - Charity accounts. Pending conclusion of discussions with OSCR, the Council will need to make a choice between making the appropriate trust fund disclosures in the 2010/11 accounts and making arrangements for the separate audit of these funds
 - valuation of council dwellings. LASAAC has agreed to issue guidance requiring the use of a Beacon approach by 2015/16 at the latest. As the Council currently uses this approach any review of approach should take cognisance of this guidance.
 - Pension funds. Pending the outcome of Scottish Government consultation the Council should make the necessary preparations to publish a pension fund annual report by 1 December following the financial year end. In preparing and publishing the annual report, the Council is required to have regard to guidance issued by the Scottish Ministers.

4. Use of resources

Financial position

63. As reported in the Income and Expenditure Account for 2009/10 the Council's net operating expenditure of £485.163 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £42.773 million (2008/09 – deficit of £47.904 million). After the necessary statutory and non-statutory accounting practices adjustments to the General Fund movements for the year, this resulted in an increase of £5.684 million for the year (2008/09 – increase of £7.617 million), increasing the General Fund balance carried forward to £37.735 million as at 31 March 2010. A total of £8.578 million of this balance relates to the Housing Revenue Account (HRA).
64. For statutory accounting purposes the HRA balance requires to be included as a ring-fenced amount within the General Fund balance, albeit that for internal and budget purposes the Council treats the HRA and the General Fund separately. The HRA Income and Expenditure Account reported a surplus for the year of £7.361 million (2008/09 – surplus of £10.508 million). The final outturn for 2009/10, after the necessary adjustments to the HRA movements was an increase of £2.087 million in the HRA balance for the year to £8.578 million at 31 March 2010 (2008/09 - £6.491 million).

Financial performance

65. Financial performance for 2009/10 is measured against the financial budget set by the Council in February 2009 (and subsequent approved amendments). In this regard the Council reported an operational under-spend against budget for the financial year of £8.730 million.
66. When the budget for 2009/10 was approved, it was anticipated that there would be a £0.275 million use of reserves and balances during the year. The base budget spend of £438.736 million, set on 12 February 2009, was increased as a result of adjustments to Revenue Support Grant, commitments brought forward from 2008/09 and other expenditure approved by the Council during the year. As a result of these adjustments the base budget increased to £455.152 million, with an anticipated use of reserves and balances of £15.766 million.
67. The audited financial statements report that the General Fund balance, excluding the HRA balances, increased by £3.597 million. This improved position of £19.363 million against budget can be broken down into three main elements:
- operational budget surplus of £8.730 million
 - exceptional item relating to VAT recoveries of £6.125 million
 - consent to borrow funds of £4.508 million for revenue purposes
68. During 2009/10, the Council closely monitored its expenditure to ensure that financial pressures were managed as effectively as possible. This was achieved through monitoring at an operational level, through the Service Committees, and at a corporate level, through the Finance and Resources Committee, where alternative savings were achieved where possible to partially offset overspends. Further details on the final outturn position can be found in the Explanatory Foreword to the audited financial statements.
69. As part of the forthcoming Spending Review being undertaken across the UK, public bodies throughout Scotland are currently engaged in a detailed review of their finances in anticipation of significant cuts in public spending. The North East Chief Executive's Forum are meeting regularly to share thinking and to try to ensure that the interdependencies between financial and service reductions made by the individual organisations are understood and recognised.

4. Use of resources

70. In setting its 2010/11 Budget, the Council committed to make all the necessary arrangements, including the commencements of a priority based budgeting approach, to achieve a balanced budget for 2011/12 and future years. Work is now almost complete in developing a fully costed 5-year Business Plan for 2011/16, built on priority based budgeting principles. Consultation has taken place with partners across all sectors through a series of briefings and workshop sessions. A series of engagement events and briefings have also been scheduled for the general public to ensure that as many people as possible get the chance to have their say. The Business Plan will be brought to the Finance and Resources Committee in December 2010 for consideration.

STOs

71. All STOs are projecting to produce a surplus in 2010/11 which would, if achieved, ensure that the rolling three-year breakeven target will be met in 2010/11.
72. During 2009/10, the Council undertook a review of its Trading Services, and updated members of the Finance and Resources Committee of the initial outcome of the on-going review in May 2010. The Committee approved the change in classification of the Catering (School), Catering (Other) and Building Cleaning Services, from Statutory Trading Services to General Services with effect from 1 April 2010, and instructed that future service re-design work takes into consideration the impact of maintaining Statutory Trading Accounts. These changes in classification do not impact on the six STO's disclosed in the financial statements as they are all from the "Non Significant" category.
73. The implementation of IFRS from 2010/11 changes some of the accounting policies that are applied in determining revenue and expenditure. LASAAC guidance states that it is inappropriate to re-state the 2008/09 and 2009/10 figures onto an IFRS basis when determining whether the three year breakeven target has been met in financial year 2010/11, as this would retrospectively change the statutory targets for these years. By not restating figures for financial years 2008/09 and 2009/10 the three year data will consist of two financial years of old SORP (UK GAAP) basis data and one year of Code (IFRS) data for 2010/11. It has been agreed that presentation of the three year calculation amount should explicitly state this to be the case.

Group balances and going concern

74. The Group's net operating expenditure of £503.933 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £61.543 million (2008/09 - £72.240 million).
75. The Group Balance Sheet shows the Total Assets less Liabilities to be a net asset position of £566.672 million at 31 March 2010 compared with the Council's single entity Balance Sheet net asset position of £898.626 million. The material decrease of £331.954 million, is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.
76. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

4. Use of resources

Capital expenditure

77. Gross capital expenditure on the Council's fixed assets for 2009/10 amounted to £197.469 million of which £48.738 million was spent on the Council Dwellings and includes £94.976 million for the 3Rs project costs. Further details of the split of capital expenditure, together with an analysis of how the expenditure was financed, are included in Note 1 within the financial statements.
78. The gross capital budget for 2009/10 was £117.837 million, split £66.090 million General Fund and £51.747 million HRA. This was under-spent by £13.732 million, £10.723 million General Fund and £3.009 million HRA. The General Fund slippage was principally due to re-profiling of spend on corporate accommodation and delays in agreeing costs in relation to waste disposal. Slippage with the HRA was principally due to delays in projects involving structural repairs due to lack of in-house staff and suitable contractors being available to take these projects forward.
79. A paper to the Finance and Resources Committee in September 2010 advised that the 2010/11 approved capital programme of £108.500 million was unsustainable. The Head of Finance has confirmed that the Council has made revenue provision for capital expenditure of only £69 million. The Finance and Resources Committee was asked to confirm the Capital Programme for 2010/11 at £69 million and that all appropriate measures be put in place to ensure the Programme remains within the revenue supported funding limits.
80. The above proposals will result in approximately £39 million of capital expenditure moving into 2011/12. The Finance and Resources Committee report notes that this re-profiling of expenditure could mean that many projects already identified may not be deliverable. For further comment see paragraph 105.

Efficient Government

81. All public sector bodies in Scotland are involved with the Scottish Government's Efficient Government initiative. The initiative is designed to achieve cash and time-releasing savings over a three-year period through elimination of waste, bureaucracy and duplication.
82. For 2008/09 to 2010/11, no specific targets have been set for individual authorities, but the Scottish Government identified a target for efficiency savings of 2% across the public sector. The Council recognises that it must strive for and achieve continuous improvement to its services, measurable year on year. It has carried out work on various topics including the adoption of new technology, developing staff and the organisation's capabilities, closer working together with partners and rigorously challenging how it works.
83. In 2009/10, the Council has reported £10.576 million cash releasing savings, which is in excess of the national 2% annual target set for local authorities by the Scottish Government. These savings have been achieved in a number of areas, as detailed in the Council's report to the Scottish Government, the most significant of which are:
- clear and strong management of placements and options for children requiring additional support resulted in significant savings being achieved
 - savings were achieved against a variety of commodities, driven by the Central Procurement Unit
 - through service redesign, linked to individual needs, there have been cost reductions achieved in Social Work, Learning Disability Services, resulting in a reduction in high cost care packages
84. Many of the improvement initiatives carried out in earlier years will continue to deliver efficiency gains in financial year 2010/11. The Council also has a detailed plan to achieve efficiencies in 2010/11 and beyond.

4. Use of resources

Reserves and balances

85. All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2010 the "cash-backed" fund balances and reserves held by the Council totalled £44.319 million (at 31 March 2009 - £39.281 million). Table 1 details the balances and movements on these reserves. The Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve and the Pensions Reserves are specific accounting reserves and have been excluded as these are not "cash backed" reserves.

Table 1 – Fund balances and reserves

Fund balances and reserves	2010	2009	Movement
	£m	£m	£m
General Fund	29.157	25.560	3.597
Housing Revenue Account	<u>8.578</u>	<u>6.491</u>	<u>2.087</u>
General Fund balance	<u>37.735</u>	<u>32.051</u>	<u>5.684</u>
City Improvement Fund	0.338	0.380	(0.042)
Lord Byron Fund	0.005	0.005	0
Capital Fund	5.121	5.026	0.095
Insurance Fund	<u>1.120</u>	<u>1.819</u>	<u>(0.699)</u>
Other Funds and Reserves	<u>6.584</u>	<u>7.230</u>	<u>(0.646)</u>
At 31 March	44.319 =====	39.281 =====	5.038 =====

86. Commitments against the General Fund balance, excluding HRA total £18.229 million leaving an uncommitted balance at 31 March 2010 of £10.928 million. Commitments against the HRA balance total £3.052 million leaving an uncommitted balance of £5.526 million. The overall total uncommitted balance is £16.454 million.
87. The uncommitted General Fund reserve balance excluding HRA, of £10.928 million represents 2.5% of the net revenue budget for 2010/11 and is within the Council's approved limits.

Treasury management

88. The Local Government Investments (Scotland) Regulations 2010 were approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. The Regulations permit local authorities and boards to make investments subject to them obtaining the consent of Scottish Ministers. Finance Circular 5/2010, issued by the Scottish Government on 1 April 2010, provides the general consent of Scottish Ministers and sets out the requirements attached to the consent.
89. The consent requires authorities to invest in a way that minimises the risk to the capital sum and optimises the return on the investment consistent with those risks.
90. Authorities are required to prepare an Annual Investment Strategy (the Strategy) before the start of the financial year and an Annual Investment Report (the Report) within six months of the financial year end. The consent specifies minimum requirements for these two documents. There should also be a mid-year review.
91. Under the Local Government (Scotland) Act 1973, an authority is permitted to delegate functions to committees, with the exception of setting the council tax and borrowing money. The Investment Regulations extend these exemptions to include the approval of the Strategy and Report.

4. Use of resources

92. Scottish Ministers recommend that the Strategy and Report are also considered by an appropriate committee / scrutiny body. The Council has agreed that scrutiny of treasury management decisions and performance should be undertaken by the Finance and Resources Committee.

93. The Council's Investment Strategy for 2010/11 to 2012/13 was approved by the Finance and Resources Committee at its meeting on 17 June 2010. This is not in line with the above, as no approval has been sought from the full Council.

R5 In future the Annual Investment Strategy, the Annual Investment Report and the mid-year review should be presented to the Council for approval.

94. In the event that an authority makes an investment which is not listed as a permitted investment in their annual Investment Strategy, that investment will not be made in accordance with the Consent and as such will be *ultra vires*.

Pensions

95. Accounting for the costs of pensions presents a difficult challenge for councils. The amounts involved are large, the timescales long, and the estimation process is complex involving many areas of uncertainty that are the subject of assumptions. FRS 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

96. The Council participates in two pension schemes on behalf of its employees: the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Aberdeen City Local Government Pension Scheme (LGPS) for which Aberdeen City is the administering authority. Both schemes provide members with defined benefits related to pay and service.

FRS 17 Pension costs

97. The Council disclosed the FRS 17 requirements for the LGPS. The Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies.

98. The Council's pension liabilities at 31 March 2010, estimated by the Actuary, exceeded its share of pension scheme assets by £299.732 million (2008/09 - £215.887 million). The net pension liability in the Balance Sheet has increased by £83.845 million (39%) during 2009/10. One of the main components of the increase is the rate applied by the actuary for discounting scheme liabilities. The rate applied is linked to corporate bond rates, which mainly relate to large financial institutions such as banks. In 2007/08 and 2008/09 banks were offering higher interest rates than normal to attract buyers of these bonds.

99. In 2009/10, some banks have withdrawn from the corporate bond market and returns from these bonds are now based on large commercial organisations and rates now reflect the current economic climate. The impact in this change in the discount rate has a multiplier effect when the inflation rate is taken into account. While rates in 2008/09 had a beneficial effect on the future liabilities, for 2009/10 the decrease in the discount rate was a significant component in the £83.845 million movement in the net pension liability.

100. The calculation of current service cost for pension benefits earned is based on the discount rate at the start of the year. Therefore current service costs in 2009/10 have not been affected by the change, at 31 March 2010, in the corporate bond rates used to estimate the current value of pension liabilities. The change in rate will however affect the reported current service costs of pensions in 2010/11 which are therefore likely to be higher than those reported for 2009/10.

4. Use of resources

101. The move from the retail to consumer price index as a basis for future public pension increases announced in the Emergency Budget in June 2010, is expected to result in reduced pension liabilities in future years (see paragraph 52). Note 18 on page 52 of the accounts estimates the reduction to be between 6% and 8%.

Financial planning

102. In 2010/11, the Council again froze the Council Tax in accordance with the concordat with the Scottish Government. However, there is uncertainty about the continuation of arrangements supporting the Council Tax freeze. The Council will consider all available options once the announcement on the Scottish local authority financial settlement is made.
103. The key risk for the Council for future years will be to manage within the available budget. In setting the 2010/11 Budget, the Council approved a range of savings and costs reductions of £25 million, in order to achieve a balanced budget. A base budget spend of £445.706 million for 2010/11 was approved on 11 February 2010, which budgeted to increase the General Fund balance by £3.571 million.
104. In his report "*Revenue Budget 2010/11 Budget Monitoring*" to the Finance and Resources Committee on 28 September 2010, the Head of Finance reported a projected outturn at the end of the year as a reduction in the General Fund balance of £0.8 million. As the budget had been set to increase the General Fund balance, this would represent an adverse movement against budget of £4.4 million. Uncommitted General Fund balances at the year-end would then be £10.5 million, which is below the recommended balance of £11.2 million that the Council has previously set, which is defined as between 2.5% and 3% of the net revenue budget.
105. The most significant variance in this report is under the Corporate Budgets heading, where an estimate has been included for additional sums which may be required to cover further capital financing costs in the current year. The funding currently available for capital expenditure is less than the full capital programme and there are continuing risks that the necessary slippage to prevent overspending will not be achieved.

People management

106. The Council's Corporate Workforce Strategy, Peoplefirst, informed the Interim Business Plan 2010-13 approved in December 2009. Staff were consulted in the development of this plan. The Interim Business Plan sets out a number of local priorities which are aligned under the national outcomes set by the Scottish Government as part of the National Performance Framework.
107. One of the local outcomes included in the Interim Business Plan is the aspiration to have "...a flexible, skilled and motivated workforce". In order to deliver this outcome the Council has set out three improvement actions as follows:
- to develop a flexible Corporate Workforce Plan which aligns the Council's workforce with available resources and Council priorities
 - to ensure that effective succession planning is in place
 - to review the range of skills on a service by service basis to make sure that there are high skilled and motivated employees.

4. Use of resources

108. Work is still ongoing to progress these improvement actions. In addition, work to develop a new 5-year costed Business Plan is almost complete and staff have been given the opportunity to engage with the development of this plan providing them with an opportunity to influence the way that the Council delivers services in the future through the introduction of new ways of working.

Asset management

Asset Management Plans

109. The Council's first Property Asset Management Plan was approved by Committee in June 2009. An update to this plan was reported to Finance and Resources Committee in September 2010, identifying key areas of progress since 2009 along with highlighted areas for development. The objectives and priorities have been amended slightly to reflect the priority based budgeting project and the Council's 5-year Business Plan.
110. Service Asset Management Plans are now being drafted, with the completion of this work targeted for the end of November 2010.
111. The Council continues to work closely with its public sector partners through the Public Sector Property Group. A shared database is now in place to allow partners to see the location of all public sector assets as well as the key property information associated with them.

Corporate Asset Management System

112. The Council is currently implementing a Corporate Asset Management System (CAMS) to replace stand alone systems such as Bridgeman for Bridges and Structures and HiLight for Street lighting. An update on the progress with implementation was presented to the Finance and Resources Committee in September 2010.

Procurement

113. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in public sector bodies and as a basis for the sharing of best practice and continuous improvement.
114. In late 2009, all 32 Scottish councils took part in the first round of PCA assessments of their procurement activities to determine capability against the pre-determined criteria. The assessments were conducted and carried out by Scotland Excel. Each council was scored and placed in one of four clearly defined performance bands, in line with the recommendations in the McClelland report. These performance bands were 0 - Non-conformance, 1 - Conformance, 2 - Improved performance and 3 - Superior performance.
115. The overall procurement status assessment by Scotland Excel scored the local government sector in Scotland as non-conformant with an average compliance score of 22.6%. This placed Scottish local government, as a whole, near the top of the 0 - Non-Conformance band. The score for the Central Procurement Unit (CPU), shared by the Council and Aberdeenshire Council, was significantly higher than the Scottish local government average at 42% compliance, which placed the CPU within performance band 1 - Conformance.

4. Use of resources

116. In December 2009 the Council agreed to take part, along with all other Scottish councils, in a procurement improvement programme designed around the outcomes from the PCA assessment. This improvement programme focuses on 5 key workstreams:
- the role of procurement in the organisation
 - getting the right people doing the right things
 - adoption of a strategic approach to sourcing
 - embedding new systems and processes
 - conformance
117. The improvement actions arising from the initial PCA assessment were integrated into the Joint Procurement Strategy 2008/2011. The follow up PCA assessment has recently been completed. This provides confirmation of the progress made by the CPU to improve compliance with an increased compliance score of 51%. This places the CPU in performance band 2 – Improved performance.

Outlook

118. Along with other councils, Aberdeen City Council is facing up to the prospect of having to make significant budget savings. At the same time as the Council aims to support the local economy and provide best value services, it is likely to face a severe reduction in resources. The Council needs to continue to plan for reduced resources over the medium term and make decisions to deliver cost reductions in a managed way.

5. Governance and accountability

Corporate governance and internal control arrangements

119. The Council's Local Code of Corporate Governance was last revised and updated in 2006. Due to the changes made to the Council's decision making and management structures, and Standing Orders, a refreshed Local Code is currently being developed. Regular reports have been provided to the Corporate Policy and Performance Committee on this, with the most recent stating that a revised Code will be brought to the Committee on 25 November 2010. Structured around the six principles advocated by the Society of Local Authority Chief Executives (SOLACE) and Chartered Institute of Public Finance and Accountancy (CIPFA), the revised Code will reflect the many changes made within the Council's governance arrangements since May 2008.
120. The Council undertook a review of its Standing Orders during 2009 to take into account the new management and committee structure, as well as addressing a number of issues raised by members since the 2007 revision. As part of this review, it was agreed to have separate, stand alone documents for the following, rather than being part of the main standing orders:
- Finance
 - Contracts and Procurement
121. Revised Standing Orders were approved by the Council at its meetings of 30 September and 18 November 2009.
122. When the Council approved the new committee structures in June 2009, it was agreed that a review would be undertaken six months after its introduction in August 2009, particularly in relation to the operation of the Finance and Resources and Corporate Policy and Performance Committee. A review was undertaken in March 2010 at which time the Council agreed to revert the Committee cycle back to being one of eight weeks rather than six. It also agreed to continue with the present committee structure, with the exception of the Budget Monitoring Board, where it was agreed that this should now be disbanded as its remit is now covered by the Finance and Resources Committee.
123. The current Chief Executive has resigned and is due to leave the Council in early 2011. The Appointments Panel has met to agree the job description, person specification and remuneration package and the post has now been advertised. The appointment is expected to be made by the end of November 2010.

Annual governance statement

124. In our 2008/09 Report to Members we noted that in Scotland there is no statutory requirement for local authorities to conduct an annual review of the effectiveness of their system of internal control and prepare an Annual Governance Statement, as there is for bodies in England and Wales. However, authorities in Scotland are encouraged to produce one on a voluntary basis. The CIPFA / SOLACE revised framework, "*Delivering Good Governance in Local Government*", which is reflected in the 2009 SORP, represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement.
125. In the 2009/10 financial statements, the Council has published a single Annual Governance Statement, based on the CIPFA / SOLACE Framework. In general, this Statement adopts the main elements of good practice. There are, however, some areas which need further development and these have been discussed with officers and will be included within our Year-end Management Letter for action.

5. Governance and accountability

126. Although we are not required to audit compliance with the Council's Code we reviewed the statement and the Council's processes to inform our view of the governance arrangements in place. We are satisfied that the Council has identified the key areas where work is still required to ensure full compliance with the Code.

Reliance on Internal Audit

127. To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2009/10 we agreed to place reliance on work covering a number of areas.
128. Due to the limited resources available within the Council's Internal Audit function, an external firm was appointed to carry out specific projects within the 2009/10 Audit Plan. Following review of the files relating to each of the reports we concluded that we could place reliance on the work and findings of Internal Audit.
129. Following an option appraisal, to assess the Best Value means of delivering the Internal Audit function, the Audit and Risk Committee agreed to fully outsource the service. Following a tender process an external firm of accountants were formally appointed as internal auditors in April 2010.

Prevention and detection of fraud

130. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
131. At a corporate level, the Council has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
132. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. No such frauds were reported during 2009/10 other than those identified through the National Fraud Initiative (NFI) and fraud specific to Housing and Council Tax benefit.

National Fraud Initiative

133. During 2009/10 we continued to monitor the Council's participation in the NFI 2008/09. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, Police and Fire and Rescue Boards, Health bodies and other agencies to help identify and prevent a wide range of frauds against the public sector, including occupational pension fraud and payroll fraud. Almost all of the data matches uploaded to the NFI secure website in February 2009 have been investigated and the outcomes recorded on the NFI web application. Only 24 of the 3319 matches processed are still classified as in progress. A total of 30 frauds and 166 errors were identified with a combined value of £242,141 and the Council is taking steps to recover a total of £218,495 of this amount covering 189 cases. The Council was one of 14 Scottish local authorities which took the decision not to provide the necessary information to enable participation in the mid-cycle Council Tax matches in March 2010.

5. Governance and accountability

134. In February 2010 we submitted an NFI return for the Council to Audit Scotland. This return summarised the progress made by the Council in relation to the NFI 2008/09 exercise and assessed whether the approach adopted was in line with the NFI handbook for Scotland issued in June 2008. Our return confirmed that there were no issues arising from our review of the Council in relation to the NFI 2008/09 exercise and concluded that overall the Council's arrangements for NFI were adequate.
135. The information on the return was used by Audit Scotland to inform the national report for the Auditor General and the Accounts Commission on the National Fraud Initiative in Scotland 2008/09 which was published in May 2010.
136. The Council is required to make adequate arrangements for the upload of the specified data for the 2010/11 NFI exercise in October 2010. We have obtained assurances from the Council's nominated NFI contact that arrangements will be put in place to provide the necessary data in line with the guidance issued by Audit Scotland. We will continue to monitor the steps taken by the Council as the 2010/11 NFI exercise develops.

Housing benefit/Council Tax benefit

137. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2010. A specialist team is carrying out a programme of risk assessments of benefits services in all councils over a two year period.
138. The Council's risk assessment took place in November 2009. The Audit and Risk Committee were advised of the report conclusions in January 2010. This report found that the benefits service had improved performance year on year on new claims and change events speed of processing, Housing benefit overpayment recovery and handling requests for reconsiderations.
139. The report recommended that to ensure optimum effectiveness, efficiency, economy and equality of treatment, the Council needs to review and extend its current quality checking programme and similarly review the working practices and resourcing of its benefit fraud team. An action plan to address and minimise the risks was included with the submission to the Audit and Risk Committee in January 2010.
140. We audit the Council's subsidy claim form each year in accordance with guidance and instructions provided by Audit Scotland and the Audit Commission, using the HB count methodology. In both 2007/08 and 2008/09 the application of this methodology identified a number of errors that will potentially give rise to subsidy clawback. The subsidy work for 2009/10 is currently ongoing and an estimate of the potential clawback for this year, together with the outstanding settlements for the previous two years, has been provided for in the Council's accounts.
141. We believe that the Council could further reduce the number of errors and potential clawback by extending its current quality checking programme in line with Audit Scotland's report.



5. Governance and accountability

Outlook

142. Maintaining effective governance arrangements in a period of potential significant change will be a challenge which we will monitor as part of our 2010/11 audit.
143. The Council is required to make adequate arrangements for the upload of the specified data for the 2010/11 NFI exercise in October 2010 and we will continue to monitor the steps taken by the Council as the 2010/11 NFI exercise develops.
144. Progress with the Council's action plan from Audit Scotland's risk assessment and report will be noted for our 2009/10 and 2010/11 Housing benefit / Council Tax benefit subsidy claim work and our 2010/11 Financial Control Evaluation work.

6. Performance management and improvement

Performance management

145. The Audit of Best Value and Community Planning – Progress Report, published in July 2009 recognised that “The council is making steady progress in implementing a corporate performance management process across all services, but still has work to do to introduce an effective performance culture throughout the organisation.” Work has continued throughout 2009/10 to further enhance the Council’s performance management. This work has been helped considerably by improved clarity in the Council’s planning hierarchy with clear linkages from the national outcomes down through the Community Plan and SOA into the Council’s Interim Business Plan and then into individual service level Business Plans.
146. At the 29 April 2010 meeting of the Corporate Policy and Performance Committee it was agreed that all service committees would receive a quarterly consolidated service performance report which would monitor the following aspects of service performance:
- all Statutory Performance Indicators, specified and discretionary, which fall within the committee’s remit
 - other Key Performance Indicators which the service and / or the committee deem necessary to manage performance
 - specifically, data showing actual and projected expenditure on revenue and capital budgets, as well as delivery of agreed savings
 - progress with actions set out in the relevant Service Business Plan
 - the relevant Service Risk Register
147. The purpose of this new service level performance reporting framework is to bring together all the strands of performance monitoring in a consistent and coherent way which will allow managers and elected members to manage performance more effectively. This will be further enhanced by the introduction of exception reporting into the quarterly performance reports to service committees. This approach was approved by the Corporate Policy and Performance Committee on 23 September 2010 and will allow elected members to focus on those issues which require their intervention in order to drive improvements in performance.
148. In April 2010 it was also agreed that annual performance reports should be submitted to the Corporate Policy and Performance Committee showing progress and outturns in relation to the SOA, the Council’s Corporate Business Plan and all Statutory Performance Indicators. This will allow detailed analysis of year on year performance at community planning partnership, Council and service level.
149. The Council has recognised that further work is required to refine the performance measures contained in the Corporate Business Plan and Service Business Plans in order to make them more outcome focussed. This work will complement the work which is ongoing to engage with communities about priorities for the future and to identify customer expectations in terms of service delivery models, quality and charging structures.

Statutory Performance Indicators (SPIs) and performance reporting

150. The SPIs for audit year 2009/10 are defined in the 2008 Direction, (the Direction) given by the Accounts Commission for Scotland under section 1(1)(a) of the Local Government Act 1992. This Direction takes a significant shift in approach from previous years in that the number of specified indicators has been reduced dramatically.

6. Performance management and improvement

151. The revised Direction places the onus on individual Councils to collect, record and publish a range of information, including 25 specified indicators, sufficient to demonstrate that it is delivering Best Value in relation to the corporate management and service performance headings set out in SPI1 and SPI2 in the Direction. Only the 25 specified indicators needed to be submitted to Audit Scotland by 31 August 2010, prior to publication of all the information required by the Direction by 30 September 2010. The change in approach recognises the changing environment in which local authorities are operating including the development of SOAs, increased self-evaluation and an agenda to reduce the overall volume of scrutiny.
152. In addition, in accordance with section 13 of the Local Government in Scotland Act 2003 and associated regulations and guidance from Scottish Ministers the Council must:
- publish the information specified in the schedule to the Direction for all those activities which are carried out by the body
 - ensure that publication facilitates the making of comparisons where appropriate and possible with performance in 2008/09
153. As set out under the Local Government (Scotland) Act 1973 our duty as auditors of the Council is to be satisfied that the Council *“has made adequate arrangements for collecting and recording information, and for publishing it, as are required for the performance of their duties.”*
154. We have placed reliance on the outcome of Internal Audit work included in the 2009/10 plan following discussion and agreement with the former Chief Internal Auditor. The work was reported in internal audit report CG/R/0918 – External Management Information/SPIs, in January 2010.
155. The scope of the internal audit exercise covered the process for selection of SPIs for 2009/10 and whether improvement targets had been set for the SPIs selected. Internal audit concluded that following the internal consultation process conducted in 2009 the *“process for selection of SPIs for 2009/10 had resulted in the implementation of a set of indicators which met the requirements of the Direction issued by the Accounts Commission”*.
156. Auditors are no longer required to formally ‘sign off’ on the reliability, or otherwise, of SPI information but do retain the option to conduct sample testing on individual indicators. Our review of the draft SPI proforma containing the 25 specified SPIs prepared by the Council took the form of an analytical review designed to highlight year on year variations in reported performance. Our review identified a few areas where additional information was required in order to fully explain year on year variances. However, explanations for the vast majority of variances identified were provided in the comprehensive Analytical Report sections within the SPI proformas prepared by services and collated and checked by Performance Management and Quality Assurance (PMQA) in the Corporate Governance service.
157. Two errors were identified in the draft SPI proforma prepared for submission to Audit Scotland. One of these errors was a presentational issue regarding SPI 15a, the Scottish Housing Quality Standard – Tolerable Standard indicator, which was amended following discussions with Audit Scotland in order to achieve consistent reporting nationally. This presentational change will also impact on the equivalent 2008/09 figure. The second error related to SPI 23b on the Cost of Refuse disposal. Both of these errors were corrected by the Council in the final version of the proforma submitted to Audit Scotland before the 31 August 2010 deadline.
158. The Council has a statutory duty to publish a range of performance information, sufficient to meet the requirements of the relevant SPI Direction, within 6 months of the end of the reporting period, together with prior year information where this is available. Publication of the outturn performance and analysis on the 2009/10 SPIs was agreed by the Corporate Policy and performance committee on 23 September 2010 and the information was made available to the public through the Council website by the 30 September 2010 deadline.

6. Performance management and improvement

159. From discussion with management, review of internal audit report CG/R/0918 – External Management Information / SPIs, and review of various reports and publications we have concluded that the Council's arrangements for identifying, defining, checking and recording the 2009/10 SPIs are robust. In addition the Council's processes are sufficient to meet the Council's statutory duties to collect record and publish a range of information which fulfils the requirements set out in the Accounts Commission's 2008 Direction.

Equality and diversity

160. The Progress and Achievement Group (PAG) is responsible for monitoring and challenging the progress made in taking forward the Council's Single Equality Scheme 2009 – 2012. Recent progress made includes better support and information for front line workers through the use of "Equalities made Simple" guidance, early community engagement in the Council's budget process and the staging of a number of awareness raising events (including Community Planning Fortnight, Holocaust Memorial Day, International Days Against Racial Discrimination, Against Homophobia and International Women's Day).

Sustainability

161. The Council's Carbon Management Plan 2010 – 2015 was agreed and adopted by the full Council meeting on 24 March 2010. In addition, members also agreed that all future capital bids should be accompanied by a calculation showing the carbon impact of the proposed project so that carbon impact can be considered when prioritising capital investment. It was agreed in principle that a Carbon Investment Fund would be created for the purpose of offsetting the impact of the cumulative road and air travel on Council business. It was agreed that a more detailed proposal would be worked up and presented for the consideration of elected members in September 2010. A report was submitted to the meeting of the Carbon Management Strategy Group on 19 August 2010 setting out the business case for the introduction of a carbon offset fee on all business air travel. Following consideration by the group it was decided to investigate alternative approaches to the funding of carbon reduction projects.
162. The Head of Asset Management and Operations is now required to prepare an Annual Progress Report to be presented to the Enterprise, Planning and Infrastructure Committee in order to provide an update on progress made to implement the agreed Carbon Management Plan 2010 – 2015.
163. The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory scheme designed to assist the Scottish Government in achieving its target of reducing carbon emissions by 1.2 million tonnes per year until 2020. Report EPI/09/066, entitled 'Climate Change Commitments and Carbon Reduction Commitment', was submitted to the 26 November 2009 meeting of the Enterprise, Planning and Infrastructure Committee. This report set out the potential implications of CRCEES for the Council and provided details on two national campaigns for climate change namely: 10:10 Commitment and the Prince's May Day Network. The committee agreed that the Council should sign up to both of the national climate change campaigns and requested that the Head of Finance update members on the potential financial implications of the CRCEES as more details became available.
164. The Council has registered for the CRCEES and the Director of Enterprise, Planning and Infrastructure is the nominated senior officer. Discussions have been ongoing between the Finance Manager, who is the primary contact for the CRCEES scheme, and the Energy Manager, who is the secondary contact, to identify the financial implications of the CRCEES scheme to inform the calculation of the provisional base budget for future years. There has been no further formal reporting on this topic by the Head of Finance, since report EPI/09/066.

6. Performance management and improvement

Single outcome agreement

165. The SOA, covering the period from 2009 to 2012, was submitted to the Council in May 2009, and signed by The Aberdeen City Alliance (TACA) and the Scottish Government on 30 July 2009.
166. TACA has been in existence since 2002 and was originally chaired by the leader of the Council. It was established as an informal partnership in line with the requirements of the Local Government (Scotland) Act 2003. The governance arrangements for TACA have evolved over that time and have more recently been captured in a constitution and standing orders for the partnership.
167. The local outcomes set out within the SOA have been used to inform the content of the Interim Business Plan agreed by the Council in December 2009. In turn, the Business Plans produced for each Service were aligned with the local outcomes set out in the Interim Business Plan. This provides an explicit link between the high-level SOA outcomes and the more detailed service-level outcomes, outputs and activities.
168. The 2009/10 SOA recognises the importance of the Fairer Scotland Fund resources as a lever for mainstream funding. However, the Council has recognised that the impending cuts in government funding will have implications for each of the partners in TACA as they seek to deliver the agreed outcomes in the SOA. In particular there is a need to put robust resource planning arrangements in place to ensure that scarce resources are aligned with agreed priorities at partnership level and that this links into the resource allocation process within individual community planning partners. With this in mind a report was submitted to the June 2010 meeting of the Corporate Policy and Performance Committee setting out proposals for a review of Community Planning. It is intended that this review will examine:
- the different relationship between local and national government and the concordat
 - the drive and needs for joint service development and collaboration for the delivery of outcomes
 - the concern for the effective and efficient use of public sector and other resources
 - the necessary move to integration of services and the increasing role for active and sustainable communities
169. A paper was presented to the Corporate Policy and Performance Committee in September 2010 reporting the outturn performance and analysis for the measures included within the 2009/10 SOA. Following approval from Committee, this report was then submitted to the Scottish Government in line with the national guidance. As part of the Council's public performance reporting, the report is available through the Council and Community Planning website and a summarised publication will be prepared.

Best value audit

170. Audit Scotland's Best Value progress report, published in July 2009, noted that the Council had taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings. It noted that the full impact on the action taken to date had yet to flow through; however, the changes to date provide a solid foundation to support ongoing improvements.
171. In December 2009, the Council approved an Interim Business Plan for 2010/13. This was intended to be a key link in the chain which would ensure that there was a clear linkage of priorities and objectives from the national level, through the Community Plan and SOA, the Business Plan, Service Plans and individual objectives. Service Plans were also prepared and approved by Service Committees at varying times in early 2010.

6. Performance management and improvement

172. Progress in delivering the Corporate Improvement Plan (CIP), developed following the Audit of Best Value and Community Planning in 2008, was considered in preparing the Interim Business Plan for 2010/13. In December 2009 the Council reported that most of the improvement actions had been completed. The four actions which had not been completed at December 2009 were longer term actions and in order to further embed them in the Council's consolidated improvement agenda the actions were subsumed into the Interim Business Plan.
173. The four ongoing CIP actions subsumed into the Interim Business Plan in December 2009 were clearly mapped against the original actions to maintain a clear audit trail. Progress in discharging the CIP will now be reported as an integral part of the Interim Business Plan. A similar approach was adopted for the key improvement actions agreed following the HMle inspection of child protection arrangements the Social Work Inspection Agency report and the Inspection of the Education Functions of the Local Authority (INEA 2) inspection, together with improvement actions arising from other scrutiny bodies.

Risk management

174. The firm of external accountants carried out an Internal Audit review of Risk Management in February 2010, as part of the planned internal audit activity. The scope of this review was to assess the effectiveness of the risk management arrangements and processes for identifying, assessing, and prioritising risk. They also considered the extent to which risk management informs the coordination and economical application of resources to deliver key service objectives and priorities and minimise, monitor, and control the likelihood and impact of events impacting upon Council operations.
175. The review recognised that improvements to the risk management process has been made over the past 18 months and the Service registers for Education, Culture & Sport and Social Care and Wellbeing are close to completion. The review highlighted a number of areas for development which would improve the identification, mitigation and management of risks, with eleven recommendations made.
176. Further work has been undertaken since the Internal Audit review was carried out, and an update was provided to the Audit and Risk Committee in June 2010. In particular, following the approval of the Corporate Risk Register in December 2009, a review was carried out in March 2010 and the updated Register was submitted to the Committee for consideration. In addition, all Service Risk Registers are now in place and as previously noted are reported quarterly to service committees.

Shared Risk Assessment (SRA)

177. Following the publication of the Crerar report in 2007, the Scottish Government agreed to establish a simplified approach to delivering local government scrutiny. A key aspect of this was improved coordination and streamlining of scrutiny. These arrangements mark a fundamental shift away from scrutiny based on standard inspections undertaken on a cyclical basis. A shared assessment of the risk will be undertaken for each Council and planned, proportionate external scrutiny agreed.
178. A local area network (LAN) has been established for each Council, comprising representatives of all scrutiny bodies who engage with the Council. The Shared Risk Assessment (SRA) for the Council has been completed and resulting Assurance and Improvement Plan (AIP) details the level of risk which the scrutiny bodies believe exists across the range of the Council's services, and in light of the level of risk, sets down the strategic and service level scrutiny activity which will be undertaken by these scrutiny bodies over the next three years. The AIP for 2010-13 was presented to the Corporate Policy and Performance Committee in June 2010, and thereafter referred to the Audit and Risk Committee in September for interest.

6. Performance management and improvement

179. Although the first year of the AIP relates to the 2010/11 audit year, we have been gathering information during the 2009/10 audit to inform our 2010/11 work. The AIP noted that we would keep progress with the CIP under review. The position to date is discussed at paragraphs 172 to 173.

National studies

180. Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with the Council actions to date, is included at Appendix I.

Outlook

181. Specific scrutiny interventions included in the AIP are on-going and this includes the CIP which is noted to be subject to external audit scrutiny on an annual basis.
182. Carbon trading. As part of the mandatory CRCEES the Council is obliged to purchase Carbon Certificates, from April 2011 onwards, based on the predicted total carbon weight of emissions for the Council for 2011/12. This will be calculated using a standard government formula to calculate the carbon emissions associated with the Council's electricity and other energy usage (excluding transport). Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. This is a potentially significant new area of cost for the Council, in terms of allowances to be bought, the administration required to draw together all relevant data and the potential civil and criminal penalties in the event of non-compliance. The Council should also take cognisance of the reputational risks associated with the publication of league tables which will show the relative performance of public bodies under CRCEES.



7. Action Plan

Para ref	Observation and risk	Recommendation	Management response	
45	An IFRS-based Code of Practice on Local Authority Accounting has been prepared which replaces the SORP from 2010/11, when local authorities and joint boards are required to fully adopt IFRS. The Code applies from 1 April 2010.	R1 The Head of Finance and his team should ensure the necessary arrangements are in place to fully comply with the IFRS-based Code of Practice on Local Authority Accounting, which replaces the SORP and applies from 1 April 2010.	Urgent action is being taken to address the steps required in order to successfully achieve conversion to the IFRS-based Code. To be actioned by: Corporate Accounting Manager No later than: 30 June 2011	
			Grade	C
57	Discussions have been ongoing for some time between OSCR and LASAAC regarding the staged application of the Charities (Scotland) Regulations 2006. Until they are concluded it is recommended that local authorities continue to make disclosures in respect of trust funds that are consistent with previous years. The disclosure requirement in the SORP in respect of trust funds is not included in the Code. However, failure by local authorities to disclose details of the nature and amount of trust funds in their accounts would necessitate the preparation and audit of separate accounts for charities in order to satisfy the requirements of section 106 of the Local Government (Scotland) Act 1973.	R2 Pending the outcome of discussions with OSCR the Council must decide between making the appropriate trust fund disclosures in the 2010/11 accounts and making arrangements for the separate audit of these funds.	Pending the outcome of discussions careful consideration will be given to this matter and appropriate action taken in relation to the 2010/11 year end reporting process. To be actioned by: Corporate Accounting Manager No later than: 30 June 2011	
			Grade	C



7. Action Plan

Para ref	Observation and risk	Recommendation	Management response			
58	Feedback to LASAAC on the 2008/09 submissions to OSCR by the Council found the Aberdeen City submissions fell within the "below average" band. The letter identifies that OSCR expect clear progress to be demonstrated by authorities. The 2009/10 information is due for submission by 31 December 2010.	R3 Officers and Trustees should consider how the trust fund information submitted to OSCR can be revised to achieve improvement.	<p>Consideration is being given to improving the trust fund information that's submitted and following the completion of work to rationalise the number of trusts then the Council would expect to see significant improvements. For 2009/10 a response to OSCR earlier in the year has described the process by which additional information will be provided for trusts that are not included in the rationalisation.</p> <p>To be actioned by: Finance Manager</p> <p>No later than: 31 March 2012</p> <table border="1" data-bbox="1583 831 2112 879"> <tr> <td data-bbox="1583 831 1830 879">Grade</td> <td data-bbox="1830 831 2112 879">C</td> </tr> </table>		Grade	C
Grade	C					
60	Under current arrangements, the audit of pension fund accounts forms part of the audit of the administering council's accounts, and the audit opinion covers both the council's own accounts and the pension fund accounts. Under new proposals currently being considered from 2010/11 the new pension fund annual report will contain accounts prepared in accordance with proper practices, and it is proposed that these accounts will be subject to a separate audit. As such the pension fund accounts will no longer be set out within the council main accounts.	R4 Pending the outcome of Scottish Government consultation the Council should make the necessary preparations to publish a pension fund annual report by 1 December following the year end. In preparing and publishing the annual report, the Council is required to have regard to guidance issued by the Scottish Ministers.	<p>The Pension Fund already produces an annual report which is published prior to 1 December each year. The report will be reviewed to ensure it complies with the appropriate LGPS regulations, currently being consulted on, and to be introduced as at 1 December 2011.</p> <p>To be actioned by: Pensions Manager</p> <p>No later than: 31 March 2012</p> <table border="1" data-bbox="1583 1262 2112 1310"> <tr> <td data-bbox="1583 1262 1845 1310">Grade</td> <td data-bbox="1845 1262 2112 1310">C</td> </tr> </table>		Grade	C
Grade	C					



7. Action Plan

Para ref	Observation and risk	Recommendation	Management response	
93	The Council's Investment Strategy for 2010/11 to 2012/13 was approved by the Finance and Resources Committee at its meeting on 17 June 2010. This is not in line with the new regulations, as no approval has been sought from the full Council.	R5 In future the Annual Investment Strategy, the Annual Investment Report and the mid-year review should be presented to the Council for approval.	It is proposed that future reports will be considered initially by Finance & Resources Committee, then referred to Full Council for approval. To be actioned by: Senior Accountant (Treasury / Capital) No later than: 31 March 2011	
			Grade	B

The grading helps management assess the significance of the issues raised and prioritise the action required to address them. The grading structure is summarised as follows:

Grade	Definition
A	Fundamental issues which require the urgent consideration of senior management
B	Significant matters which require the attention of line management
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale



8 – Follow-up 2008/09 Action plan

Recommendation	Management Response		Update at October 2010
<p>R1. A single Annual Governance Statement should be produced for inclusion within the 2009/10 Financial Statements.</p>	<p>Agreed. Whilst not a statutory requirement it would be the aim of the Council to follow best practice and to complete such by 30 June 2010. This will be undertaken by the Director of Corporate Governance.</p>		<p>A single Annual Governance Statement was included in the Council's financial statements for the period 1 April 2009 to 31 March 2010.</p>
	Grade	B	
<p>R2. A review should be carried out of the current level of resources and skills mix within the finance team to ensure that they are adequate for the Council's needs.</p>	<p>Agreed. A report for interim/fixed term support is being presented to Finance and Resources Committee on 12 November 2009 as stage one. Work is being taken forward to look at the overall requirements to support services and also corporate accounting needs linked to changes in financial reporting requirements for statutory accounts. This will be undertaken by the City Chamberlain by 31 March 2010.</p>		<p>A new finance structure has been approved following the appointment of the Head of Finance early in 2010/11. This now addresses a number of issues, including capacity, and during November 2010 the work to match staff into posts and make appointments is being undertaken.</p>
	Grade	B	

Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
Road Maintenance Follow-up	Late 2010	<p>This report will evaluate the extent to which the recommendations in <i>Maintaining Scotland's roads</i> have been implemented and what has changed as a result. It will provide commentary on improvements, significant developments and the capacity for further improvement. The key objectives are to assess:</p> <ul style="list-style-type: none"> • the extent to which road condition and the size of the maintenance backlog have changed, and the reasons given (including the impact of the severe winter weather during 2009/10) • the extent to which recommendations aimed at improving value for money have been implemented • the extent to which recommendations aimed at improving the reporting of road condition and maintenance backlog information have been implemented. 	<p>Audit Scotland issued a questionnaire in July 2010. The questionnaire was completed and returned to Audit Scotland on 23 August 2010.</p>
Getting it right for children in residential care	September 2010	<p>This reports examines how effectively councils use their resources on residential placements for their looked after children and identifies areas for improvement. This work complements the Scottish Government's strategic review of residential child care services in Scotland, conducted by the National Residential Child Care Initiative. (NRCCI).</p>	<p>Given the timing of publication, progress in addressing the issues raised in this report will be followed up as part of the 2010/11 audit.</p>

Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?	August 2010	This report examines how well councillors and officers work together in local government and in particular how well councillors and officers understand their respective roles and responsibilities. It also examines how roles, responsibilities and relationships between councillors and officers contribute to achieving best value (improving services, better outcomes for local people and value for money).	This report was considered by the Corporate Management Team in September 2010. The Council's governance arrangements are currently being reviewed and Arms Length Management Organisations will be included as part of this work. The Councillors' Code of Conduct is also currently being revised. The assessment tool included within the report is to be incorporated as evidence within the Council's self-evaluation arrangements.
The National Fraud Initiative in Scotland	May 2010	This report sets out the results of the 2008/09 NFI exercise, which involved 74 bodies, including councils, police forces, fire and rescue services, health boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland.	The progress made by the Council in completing the checklist contained in the national report will be followed up with the NFI lead contact at a meeting scheduled for 11 November 2010.
Improving public sector efficiency	February 2010	This report provides a position statement on the first year (2008/09) of the Efficient Government Programme, which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gives an update on how the Scottish Government and public bodies have addressed the recommendations made in Audit Scotland's progress report on the previous efficiency programme, published in December 2006.	Aberdeen City Council has undertaken a comprehensive priority based budgeting exercise in order to prioritise spend over the next 5 years. Whilst this was planned independently of the Audit Scotland report, it is supported by it. Aberdeen City Council is also pursuing a locality based model for prioritising spend across partner organisations.

Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
<p>Protecting and improving Scotland's environment</p>	<p>January 2010</p>	<p>This report identifies that Scotland has made mixed progress against environmental targets. Specific issues highlighted in the report were as follows:</p> <ul style="list-style-type: none"> • Road transport is the main cause of Scotland's remaining air quality problems. • Meeting European targets for improving the water environment will require different approaches. • There has been mixed progress in protecting and improving Scotland's biodiversity. • Councils do not have sufficient plans to meet landfill and recycling targets beyond 2010. 	<p>The Council has not yet formally assessed the potential impact arising from this report.</p>
<p>Scotland's Public Finances: Preparing for the Future</p>	<p>November 2009</p>	<p>This report contains an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The report also looks at the Scottish Government's financial management arrangements. It suggests some key questions for the Scottish Government, the Parliament and the wider public sector to consider when planning the delivery of public services in a time of severe resource constraints.</p>	<p>The Council took cognisance of this report in setting its budget for 2010/11 and in doing so agreed to undertake a comprehensive priority based budgeting exercise in order to prioritise spend over the next 5 years. Whilst this was been planned independently of the Audit Scotland report, it is supported by it. Aberdeen City Council is also pursuing a locality based model for prioritising spend across partner organisations.</p>



Appendix I – Audit Scotland national studies

Report	Publication date	Summary of findings	Aberdeen City Council action
Making an Impact: Overview of the Best Value audits 2004-09	October 2009	This report draws from the 32 full BV audit reports, plus the 11 formal BV progress reports that the Commission has published. It summarises the impact of Best Value and presents the main issues that arose from those audit reports.	The Council found this a useful report in terms of raising awareness of issues common across all Councils. In terms of specific actions, the Council, in common with all other Scottish local authorities, was already embarked on improvement and development actions following the individual Audit of Best Value and Community Planning.



Appendix II – Acronyms

AIP	Assurance and Improvement Plan	LLP	Limited Liability Partnership
CAMS	Corporate Asset Management System	NRCCI	National Register Child Care Initiative
CIP	Corporate Improvement Plan	NFI	National Fraud Initiative
CIPFA	Chartered Institute of Public Finance and Accountancy	OSCR	Office of Scottish Charity Regulator
CPP	Community Planning Partnership	PCA	Procurement Capability Assessment
CPU	Central procurement Unit	PFI / PPP	Public Finance Initiative / Public Private Partnership
CRCEES	Carbon Reduction Commitment Energy Efficiency Scheme	PMQA	Performance Management and Quality Assurance
EUV-SH	Existing Use Value – Social Housing	PWLB	Public Works Loan Board
FRS	Financial Reporting Standard	RICS	Royal Institution of Chartered Surveyors
FSAP	Financial Statements Audit Plan	SOA	Single Outcome Agreement
HMIE	Her Majesty's Inspectorate for Education	SOLACE	Society of Local Authority Chief Executives
HRA	Housing Revenue Account	SORP	Statement of Recommended Practice
IFRS	International Financial Reporting Standards	SPI	Statutory Performance Indicator
INEA	Inspection of the Education Functions of Local Authorities	SRA	Shared Risk Assessment
ISA	International Standards on Auditing	STO	Significant Trading Operations
LAN	Local Area Network	SWIA	Social Work Inspection Agency
LASAAC	Local Authority Scotland Accounts Advisory Committee	WGA	Whole of Government Accounts
LGPS	Local Government Pension Scheme		