



HENDERSON LOGGIE

Aberdeen City Council

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

2008/2009

External Audit Report No: 2009/08

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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; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



Executive Summary

1.1 Introduction (Section 2, page 5)

1.1.1 We are pleased to submit our fifth Report to Members as external auditors of the Council. The report highlights key issues grouped under three distinct headings of finance, governance and performance.

1.1.2 The Council's Best Value and Community Planning progress report was published in July 2009. The report concluded that:

"The Council has taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings. It has put in place wide-ranging and significant new arrangements to support improvement.The changes to date provide a solid foundation to support ongoing improvements".

1.2 Finance (Section 3, page 7)

1.2.1 The audit of the 2008/09 financial statements has been completed within the timescales advised by Audit Scotland. Our opinion on the financial statements is unqualified.

1.2.2 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.

1.2.3 Our audit report no. 2009/07, **Report to those charged with Governance on the Audit of Aberdeen City Council** was discussed with the City Chamberlain and the Vice Convener of the Audit and Risk Committee before being finalised on 30 September 2009. The report provides audit comment on the key issues and audit opinion arising from the audit of the financial statements and of the financial systems of internal control.

1.2.4 Two material, fourteen significant and ten trivial audit adjustments were identified during the course of our audit. The Council agreed to make all the proposed adjustments. Definitions of material, significant and trivial in terms of the audit, are given in Appendix II.

1.2.5 The Council's Income and Expenditure Account shows a deficit for the year of £47.904 million. After adjusting for amounts required by statute and non-statutory proper accounting practices to be debited or credited to the General Fund balance, the Council reported an increase in the General Fund balance for the year of £7.617 million.

1.2.6 The HRA Income and Expenditure Account reported a surplus for the year of £10.508 million. After adjusting for amounts required by statute and non-statutory proper accounting practices to be debited or credited to the HRA balance, there was a nil movement on the balance for the year.

1.2.7 In comparison with the budgeted breakeven position, an increase in the General Fund balance of £7.617 million was achieved by an operational deficit of £9.553 million, contributions from the Capital Fund of £10.645 million and receiving consent from the Scottish Government to borrow funds of £6.525 million.



Executive Summary

1.2 Finance (Section 3, page 7) (cont'd)

- 1.2.8 While the Capital Fund has been able to support the General Fund and the HRA, the remaining balance on the Capital Fund of £5.026 million will not allow this strategy to continue without further asset disposals.
- 1.2.9 Commitments against the General Fund balance of £25.560 million total £16.776 million at the year-end and commitments against the Housing Revenue Account of £6.491 million total £1.356 million resulting in uncommitted balances at 31 March 2009 of £8.784 million and £5.135 million respectively.
- 1.2.10 The Council's net pension liabilities at 31 March 2009, estimated by the Actuary, exceeded its share of the scheme assets by £215.887 million (2007/08 - £190.368 million). Changes in actuarial assumptions have led to an increase in the estimated liability at 31 March 2008.
- 1.2.11 As reported in our previous Reports to Members, the Council has faced significant financial pressures. In setting its budget for 2009/10, the Council approved a range of savings and cost reductions, amounting to £26.625 million in order to achieve a balanced budget.
- 1.2.12 The City Chamberlain reported in her "Savings Assessment 2009/10" report to the Budget Monitoring Board on 31 July 2009, that a high proportion of the savings are expected to be delivered or are on target to be delivered.
- 1.2.13 The Council agreed a Medium Term Financial Plan in May 2009 which identified broad strategies for addressing the projected funding gap over the next four years. This does not at this stage identify relative spending priorities.

- 1.2.14 Work is currently being carried out to prepare for the 2010/11 budget. Services have been asked to draw up proposals to make a 5% budget reduction in order to balance the budget, which equates to £16.9 million.
- 1.2.15 As at 1 May 2009, the Council implemented the new contracts for staff affected by Equal Pay and Modernisation.

1.3 Governance (Section 4, page 23)

- 1.3.1 Following the publication of the Best Value report in May 2008 and the appointment of the Interim Chief Executive in August 2008, a range of interim management arrangements were put in place.
- 1.3.2 A new Chief Executive took up post on 1 in December 2008, and following a wide-ranging review and consultation a revised management structure was agreed by the Council in March 2009. At 30 September 2009 all new Directors were in post.
- 1.3.3 In June 2009 the Council agreed to implement a new political decision making structure which came into effect in August 2009, reflecting the new management structure. As part of this new structure, the audit committee role was transferred from the Scrutiny Panel to the Audit and Risk Committee.



Executive Summary

1.3 Governance (Section 4, page 23) (cont'd)

- 1.3.4 The Chief Executive is in the process of reviewing and refreshing the Council's governance arrangements. As part of this review, the Council intends to fully adopt the CIPFA/ SOLACE Framework and related Scottish guidance on "*Delivering Good Governance in Local Government*", including the production of a single Annual Governance Statement.
- 1.3.5 During 2008/09, Ernst and Young were appointed to carry out specific parts of the internal audit programme due to the limited resources available within the Council's Internal Audit function. They were also commissioned to develop a risk-based internal audit plan for 2009/10. Officers are currently carrying out an option appraisal on the Best Value means of delivering the Internal Audit function.
- 1.3.6 The Council has made good progress with its Risk Management arrangements during 2008/09, with a revised Risk Management Strategy, Risk Management Manual and Corporate Risk Register being approved by Committee in June 2009. Service Risk Registers are currently at different stages of being developed.
- 1.3.7 The Council has set up a Central Procurement Unit (CPU) in partnership with Aberdeenshire Council. The CPU works closely with Scotland Excel and is recognised as one of the four Regional Hubs of Expertise.
- 1.3.8 The Council is also a member of the North East Scotland Chief Executive Forum. A strategic assessment is currently being carried out in order to identify actions which add value to the North East of Scotland and its residents, within the national objectives and priorities.

- 1.3.9 In June 2009 the Council agreed a Corporate Property Asset Management Plan and a Corporate Asset Group was established to oversee the delivery of the plan. The implementation of this has been delayed due to the impact of the new structure, which will require new Service Plans and associated Service Asset Management Plans to be developed.
- 1.3.10 During 2008/09, the Council participated in the latest National Fraud Initiative (NFI) in Scotland. Arrangements for the exercise began in good time and the Council has made good progress in reviewing matches.
- 1.3.11 While we have seen an improvement in some areas of the accounts production process, we have recommended that a review should be carried out of the current level of resources and skills mix within the finance team to ensure they are adequate for the Council's needs.

1.4 Performance (Section 5, page 30)

- 1.4.1 The Best Value progress report noted 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*".
- 1.4.2 In 2008, the Council introduced 'Covalent' an electronic performance management information system. The CMT has agreed a strategic approach for implementing the system at all levels within the Council.



Executive Summary

1.4 Performance (Section 5, page 30) (Cont'd)

- 1.4.3 The Aberdeen City Alliance (TACA) and the Scottish Government signed the first Single Outcome Agreement (SOA) for Aberdeen City on 17 November 2008. A report was presented to Committee, and subsequently submitted to the Scottish Government in September 2009 reporting the outturn performance and analysis for the measures included with in the 2008/09 SOA.
- 1.4.4 The SOA for 2009 to 2012 was submitted to the Council in May 2009 and signed by TACA and the Scottish Government on 30 July 2009. Progress was reported to the Scottish Government as required by 30 September 2009.
- 1.4.5 The Council's 2008/09 Efficiency Statement was submitted to the Scottish Government in August 2009. This reported cash releasing savings of £16.206 million, time releasing savings of £0.065 million of which £16.177 million are recurring savings.
- 1.4.6 The 2008/09 return to Audit Scotland for Statutory Performance Indicators (SPIs) was not made by the 31 August 2009 deadline due to additional time required by the Council to carry out further testing. The SPIs were published by the 30 September deadline. We concluded that the systems in operation for the production and publication of the 2008/09 Statutory Performance Indicators (SPIs) were unreliable for two of the 58 indicators, one of which was unreliable in 2007/08.
- 1.4.7 Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with details of the actions the Council has taken to address issues arising at local level, where appropriate, is given at Appendix IV.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our fifth Report to Members covering significant matters arising during the course of our audit of Aberdeen City Council (the Council) for the year ended 31 March 2009.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland and our audit approach are as outlined in our report no. 2009/01, ***Risk Assessment, Annual Plan and Fee Proposal for 2008/09*** issued on 30 April 2009. The respective responsibilities of Council members, officers and the auditors are set out in appendix I to this report.
- 2.1.3 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; and
 - ❑ review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.
- 2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Audit Activity and Reporting

- 2.2.1 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 ***Priorities and Risks Framework Report*** issued on 15 April 2009 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.
- 2.2.2 In accordance with our ***Risk Assessment, Annual Plan and Fee Proposal for 2008/09 for Aberdeen City Council***, Report 2009/01 issued on 30 April 2009 we reviewed the Council's key controls. We have raised a number of ***issues during the course of the audit including matters highlighted in our Financial Statements Audit Plan***, Report 2009/03, issued on 26 May 2009 and our ***Report to those charged with Governance on the audit of Aberdeen City Council***, Report 2009/07, issued on 30 September 2009. We also plan to issue a detailed Management Letter covering specific issues relating to the financial statements.
- 2.2.3 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.



Introduction

2.3 Best Value Audit

2.3.1 Following the publication of the Best Value audit report on Aberdeen City Council in May 2008, a further report was requested from the Controller of Audit. Follow-up work was therefore carried out in April/May 2009. As the Council's external auditors we were involved in the follow-up audit, working with the Audit Scotland Best Value team. The work was co-ordinated by Audit Scotland and coincided with follow-up work by Social Work Inspection Agency (SWIA) and Her Majesty's Inspectorate for Education (HMIE). The three teams worked together during the planning and fieldwork stages to share information and reduce the scrutiny impact on officers and members. Separate reports were produced by each body.

2.3.2 The overall conclusion of the Best Value progress report published with the Commission findings in July 2009 was:

"The Council has taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings. It has put in place wide-ranging and significant new arrangements to support improvement. The unaudited financial statements for 2008/09 show a better than expected outturn, but the Council still faces a challenging financial situation, which is exacerbated by the current economic climate.

The full impact on the action taken to date has yet to flow through and the Council understands that there is still a long way to go before it can demonstrate the attributes of a Best Value Council. The changes to date provide a solid foundation to support ongoing improvements".

2.4 Acknowledgement

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



3.1 Audit Completion and ISA 260 Report

- 3.1.1 The target date for submission of the 2008/09 audited accounts of the Council was 30 September 2009. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.
- 3.1.2 In accordance with International Standard on Auditing (ISA) 260 we issued our *Report to those Charged with Governance on the Audit of Aberdeen City Council 2008/09* (Report 2009/07 issued on 30 September 2009) which was discussed with the City Chamberlain and the Vice Convenor of the Audit and Risk Committee on 30 September 2009. This report included our proposed audit certificate and detailed the agreed adjustments to the draft accounts arising from our audit.

3.2 Accounts Certification

- 3.2.1 On 30 September 2009 we issued our audit report expressing an unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2009.
- 3.2.2 We set out below a summary of the audit certification issues:
- ❑ in our opinion, the financial statements give a true and fair view, in accordance with applicable laws and regulations and the 2008 SORP, of the financial position of Aberdeen City Council and its group at 31 March 2009 and its income and expenditure for the year then ended;

- ❑ the Council failed to meet the statutory three-year breakeven target for the letting of industrial, commercial and other properties significant trading operation; and
- ❑ the Statement on the System of Internal Financial Control complies with the SORP. We are 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.

3.3 Audit Adjustments

- 3.3.1 Two material, fourteen significant and ten trivial audit adjustments were identified and adjusted during the course of our audit of the financial statements. Definitions of material, significant and trivial in terms of the audit are detailed in Appendix II.
- 3.3.2 The net effect of the agreed adjustments on the Income and Expenditure Account for 2008/09 was £215,000, reducing the deficit reported in the draft accounts of £48.119 million to £47.904 million in the final accounts.
- 3.3.3 A number of the adjustments to the Income and Expenditure Account relate to book entries which are subsequently adjusted further within the Statement of Movement on the General Fund Balance. As a result £1.530 million impacted on the General Fund Balance, changing the increase in the draft accounts of £6.087 million to £7.617 million.
- 3.3.4 The audit adjustments impacting on the Council's Balance Sheet decreased the Total Net Worth by £2.636 million to £993.550 million at 31 March 2009.



3.3 Audit Adjustments (cont'd)

- 3.3.5 The Pension Fund Accounts at 31 March 2009 were also adjusted by £11.849 million decreasing the Net Assets to £1.416 billion. There were no adjustments to the Transport Pension Fund Accounts, which reported Net Assets of £44.085 million at 31 March 2009.
- 3.3.6 The Council's group accounts include the final audited results of the Grampian Police, Fire and Rescue and Valuation Joint Boards, AECC and Mountwest and take account of the adjustments in the Council's own figures for both 2007/08 and 2008/09. Aberdeen Sports Village Ltd's results were included based on management accounts to 31 March 2009.
- 3.3.7 The net effect on the group's reported deficit on the Group Income and Expenditure Account was £0.972 million reducing the deficit in the draft accounts of £73.212 million to £72.240 million.
- 3.3.8 Details of these audit adjustments were highlighted in our ISA 260 report, issued to the City Chamberlain and the Vice-Convenor of the Audit and Risk Committee on 30 September 2009. A copy of the ISA 260 report has been submitted for the information of the other members of the Audit and Risk Committee. All key issues reflected in the ISA 260 report are included in this Report to Members.
- 3.3.9 A number of presentational changes to the notes to the accounts were also required to ensure compliance with the SORP.

- 3.3.10 The financial statements were not adjusted to correct four significant and seven trivial errors identified during the audit as they were not sufficiently material to impact on our audit opinion. Details of these adjustments are included within the ISA260 Report.

3.4 Financial Position

- 3.4.1 The Council's net operating expenditure of £464.872 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £47.904 million (2007/08 - deficit of £110.082 million) reported in the Income and Expenditure Account.
- 3.4.2 This reported deficit is carried into the Statement of Movement on the General Fund Balance and is then adjusted for items required by statute and non-statutory proper practices to be credited to the General Fund of £55.521 million. This results in an increase in the General Fund Balance of £7.617 million for the year, increasing the General Fund Balance carried forward to £32.051 million as at 31 March 2009. £6.491 million of this balance relates to the Housing Revenue Account (HRA).
- 3.4.3 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 entirely separately. The HRA Income and Expenditure Account reported a surplus for the year of £10.508 million (2007/08 – surplus of £11.177 million). After adjusting for items required by statute and non-statutory proper practices to be credited to the HRA Balance of £10.508 million, there was a nil movement on this balance for the year. The balance brought forward of £6.491 million was therefore maintained.

Finance

3.5 Financial Performance

3.5.1 Financial performance is measured against the financial budget set by the Council in February 2008 (and subsequent approved amendments) for 2008/09. In this regard the Council reported an underspend against budget for the financial year of £7.617 million.

3.5.2 When the budget for 2008/09 was approved, it was anticipated there would be no use of the General or Capital Fund balances during the year. The base budget spend of £417.240 million set on 14 February 2008 was increased as a result of adjustments to Revenue Support Grant, commitments brought forward from 2007/08 and other expenditure approved by the Council during the year. As a result of these adjustments the base budget increased to £420.300 million, with an anticipated use of the Capital Fund of £2.174 million.

3.5.3 The audited financial statements report that the General Fund balance, including the HRA balances, increased by £7.617 million. This improved position can be broken down into three main elements:

- ❑ An operational deficit of £9.553 million
- ❑ Contribution from the Capital Fund of £10.645 million
- ❑ Consent to borrow funds of £6.525 million for revenue purposes.

3.5.4 During the year, the Council applied for, and was granted consent to borrow under Para 1 (2) of Schedule 3 of the Local Government (Scotland) Act 1975. The consent granted was as follows:

- ❑ statutory redundancy pay in 2008/09, up to a maximum of £3.721 million. The amount utilised in the year was £1.935 million; and

- ❑ equal pay in 2008/09 and 2009/10, up to a maximum of £11.098 million. The amount utilised in the year was £4.590 million.

Table 1 – Financial Performance against 2008/09 budget

	£m	£m
Budgeted use of the General Fund		-
Expenditure on sums earmarked from the General Fund balance as at 1 April 2008		12.001
(1) Movements: (favourable)/ adverse		
Transformation Savings	12.600	
Education	3.317	
Provision for HMRC assessment on N.I.	1.266	
Planning & Building Control fee income	0.300	
Capital Financing Costs	(6.234)	
Corporate Investment, Contingencies & Modernisation Fund	(2.394)	
Net return of Surpluses from Trading Operations	(2.042)	
Further efficiencies captured mid-way through the year	(1.635)	
Joint Board requisitions	(1.382)	
Property repairs and maintenance	(1.380)	
Interest on Revenue Balances	(0.960)	
Corporate Training	(0.737)	
Non-housing response maintenance	(0.680)	
Reduction in specific bad debt provisions	(0.600)	
Equal Pay and Modernisation Provision	(0.486)	
Various other net items	(1.401)	(2.448)
Actual Operational Deficit		9.553
(2) Contributions from the Capital Fund		(10.645)
(3) Consent to borrow		(6.525)
Increase in General Fund Balance		(7.617)



3.5 Financial Performance (cont'd)

3.5.5 The City Chamberlain, in her “*Draft Financial Statements 2008/09*” Report to the Full Council on 24 June 2009 and her “*General Fund – Financial Outturn 2008/09*” to the Budget Monitoring Board on 16 July 2009 highlighted the main Services over and under spends resulting in the operational deficit of £9.553 million. Key highlights are as follows:

- ❑ Service Savings of £12.600 million included within the original 2008/09 budget were identified at an early stage during the year as being unrealisable within the time constraints of the financial year and as such alternative courses of action were initiated to compensate.
- ❑ Savings within Education were not achieved, in particular £0.800 million in respect of the National Priorities Action Fund due to delays in implementation, £0.500 million in respect of early retirement options and £0.275 million in respect of the School Estate Strategy, with actual savings being less than estimated. There was also increased demand for Pupil Support Assistants in respect of Children with Severe Needs resulting in an overspend of £0.840 million.
- ❑ A provision of £1.266 million was included within the final accounts for the HMRC Payroll Assessment in respect of uncollected employer National Insurance Contributions.
- ❑ Due to market conditions and the profile of capital expenditure, there has been an overall favourable variance on capital financing costs.

- ❑ Restrictions on the use of contingencies and revenue investment funding saw a favourable variance against budget of £2.394 million.

Capital Fund

3.5.6 In 2006/07, the Council approved a strategy to replenish balances through the use of the Capital Fund by way of releasing the net capital proceeds from the sale of the industrial sites. A similar approach to that adopted in 2006/07 and 2007/08 has therefore been followed in 2008/09 whereby the Council has utilised transfers from the Capital Fund, directly and indirectly, to fund capital expenditure and debt repayments, which would have otherwise been funded from the General Fund. This has resulted in £10.645 million being transferred directly to the General Fund, compared with a budgeted use of £2.174 million.

3.5.7 While the Capital Fund has been able to support the General Fund Balance in terms of the strategy established in 2006/07, the remaining balance on that account of £5.026 million will not enable this strategy to continue without further asset disposals.

Housing Revenue Account

3.5.8 The HRA reported a nil movement in the HRA working balance in 2008/09, therefore maintaining the balance brought forward of £6.491 million.

3.5 Financial Performance (cont'd)

Housing Revenue Account (cont'd)

3.5.9 While this out-turn matched the budgeted out-turn, there were a number of favourable and adverse variances. Additional expenditure was incurred during the year due to higher than budgeted expenditure in respect of housing repairs. However, this was offset against favourable movements in respect of capital financing costs as a result of the pattern of capital expenditure and increased dwelling house rental income due to reduced sales.

Significant trading operations (STO)

3.5.10 In accordance with the new requirements of the Local Government in Scotland Act 2003 (the Act) the Council assessed its trading activities and determined that it had six STOs, as follows:

- Building Maintenance
- Environmental Services
- Road Maintenance
- Letting of Industrial, Commercial and other Properties
- Maintenance of Grounds
- Provision and Management of Car Parking Facilities

3.5.11 The results of the STOs are disclosed in the Council's Income and Expenditure Account and associated notes. 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. Table 2 below provides the three-year trading performance.

Table 2 – Financial performance against break-even target

Significant trading operations	Financial year			Three-year outturn
	2006/07	2007/08	2008/09	
	£m	£m	£m	£m
Building Maintenance	(0.731)	(0.261)	1.127	0.135
Environmental Services	0.007	0.509	0.746	1.262
Road Maintenance	0.464	0.391	(0.002)	0.853
Letting of Industrial, Commercial & other Properties	3.110	(1.947)	(2.108)	(0.945)
Maintenance of Grounds	0.627	0.472	0.437	1.536
Provision & Management of Car Parking Facilities	3.338	4.319	3.753	11.410
Overall Total	6.815	3.483	3.953	14.251

3.5.12 The current year and accumulated deficit position within Letting of Industrial, Commercial and other Properties is due to an exceptional charge of £3.390 million in respect of revaluation of specific investment properties. This charge was 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. A similar exceptional charge of £5.292 million was made in 2007/08.

3.5.13 All STOs are projecting to produce a surplus in 2009/10 which would, if achieved, ensure that the rolling three-year breakeven target will be met in 2009/10.

3.5 Financial Performance (cont'd)

Significant trading operations (STO) (cont'd)

3.5.14 While some STOs are still working under the terms of the old Compulsory Competitive Tendering (CCT) contracts, which were originally subject to competitive tendering a number of years ago, there has been progress within some services towards moving away from these arrangements.

3.5.15 In particular the following progress has been made:

- building maintenance has not operated under CCT for a number of years. Each job is priced on the basis of actual material costs and labour inputs measured against a schedule of rates. Contracts are relatively short term and the service is effectively market tested each time it tenders or re-tenders;
- environmental services is still operating on the basis of the old contracts but is scheduled for review during 2009/10;
- roads services operate on a job by job basis and tenders for work on a competitive basis. Winter maintenance is still recharged on the basis of a CCT contract, albeit modified significantly over the years;
- fleet services operates on a job by job basis;
- grounds services is currently operating the CCT contracts but has recently completed a market testing exercise and new recharge arrangements will be introduced during 2009/10;

- catering is currently subject to a Best Value service review of its operations being undertaken by Association of Public Sector Excellence (APSE). In addition, existing subsidy and rebate arrangements are being reviewed internally; and
- cleaning is no longer operating on a CCT basis and the service was subject to market testing during the year.

3.6 Financial Pressures

3.6.1 As reported in our previous Report to Members, the Council has been, and continues to be, faced with significant financial pressures.

3.6.2 The Council approved a range of savings and cost reductions in its 2009/10 Budget on 14 February 2009, in order to achieve a balanced budget. The total net savings that were agreed amounted to £26.625 million.

3.6.3 In the "Savings Assessment 2009/10" report to the Budget Monitoring Board on 31 July 2009, the City Chamberlain noted that a high proportion of the savings are reported as being delivered or on target to be delivered. There are some areas where work is continuing to ensure that savings are delivered in full. An update report was provide to the Finance and Resources Committee on 12 November 2009 with a further update due to be provided to the Budget Monitoring Board meeting of 27 November 2009.



3.6 Financial Pressures (cont'd)

3.6.4 The financial pressures impacting on the reported position are detailed below.

Education, Culture and Sport

3.6.5 Recent Budget Monitoring reports have highlighted that within this service there are pressures associated with meeting additional costs of school meal provisions and assessing any additional costs associated with managing the decanting and setting up of the 3R's schools. Both of these issues are currently being reviewed.

Resources Management

3.6.6 Payment of fees to the appointed external property surveyor/ valuation contractor is a cost which is being carefully managed as the Council has reports that the costs may not be fully covered by the budget.

Social Care and Well-Being

3.6.7 The budgeted saving associated with the reduction in high cost care packages for people with learning disabilities is considered by the Council to be the area of highest risk. There has been some progress on the reduction of care packages without detriment to service users. However, there are 141 cases where the weekly cost currently exceeds £1,000. A specialist contractor, to be appointed following a tender exercise, is to be used to complete this review. Due to the time required to carry out the tender, this may have an impact on achievement of the full budgeted savings in 2009/10.

3.6.8 Reports to Committee have also highlighted other significant pressures on the Social Work budget, including:

- ❑ referrals to Children's services have increased by 26% over the previous 12 months, with an increase of 34% on children on the Child Protection Register. The total number of children in foster care has increased by 17% over the same period. The Council has estimated that a 10% increase in placements would cost £1 million per annum at current average cost levels.

- ❑ national care homes contract fee uplifts has an agreed increase of 0.8% above the base budget provision (£0.280 million approximately)

- ❑ £0.750 million is included in the budget for the resettlement of patients from Elmwood, a unit operated by NHS Grampian,, however there is a risk that this sum will not be sufficient;

- ❑ the Council is carrying out a review of all residential establishments staffing levels to ensure that the base budgets and the relief pool arrangements are sufficient to meet the requirements of the Care Commission.

Equal Pay and Modernisation

3.6.9 As at 1 May 2009, the Council implemented the new contracts for staff affected by Equal Pay and Modernisation. Ninety-seven percent of staff voluntarily accepted the new contracts and an appeals process has been put in place. At September 2009 there are 642 equal pay cases lodged against the Council.

3.6 Financial Pressures (cont'd)

Equal Pay and Modernisation (cont'd)

3.6.9 The total expenditure incurred to 31 March 2009 on equal pay costs amounts to approximately £35.8 million, of which £10.285 million was charged in 2008/09. A further provision of £3.740 million was included in the 2008/09 accounts, together with an amount of £1.486 million earmarked from the closing General Fund balance to meet various equal pay and modernisation costs in the future.

3.6.10 As a result of the new contracts, the Council's annual pay bill will increase by approximately 4.5% (excluding teachers). These additional costs have been built into the current year budget, therefore, are being funded through current resources available to the Council.

Waste Disposal

3.6.13 The Council is responsible under environmental legislation for the ongoing monitoring, maintenance and ultimately capping and re-instatement of 3 landfill sites, one of which is currently in use.

3.6.14 The Council entered a 25 year contract with an external contractor in 2000 for disposal of waste and the operation and maintenance of waste transfer stations, recycling facilities and landfill sites. Due to changes in legislation, problems in obtaining planning consent and changes in operational costs arising from this, the contractor submitted substantial claims in respect of additional capital and revenue costs incurred and further claims are expected. Further information is included in the Contingent Liabilities note 10 in the Council's financial statements.

Impact of the Recession

3.6.15 The downturn in the global economy has increased financial pressures through reduced capital receipts from the depressed property market, higher demand for services as unemployment rises and reduced income from services which charge, in particular building and planning fee income.

3.7 Reserves and Balances

3.7.1 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 2009 the "cash-backed" fund balances and reserves held by the Council totalled £39.281 million (at 31 March 2008 - £35.005 million), as detailed in Table 4 below:

Table 4 – Fund balances and reserves

Fund balances and reserves	2007/08	2008/09	Movement
	£m	£m	£m
General Fund	17.943	25.560	7.617
Housing Revenue Account	6.491	6.491	-
General Fund balance	24.434	32.051	7.617
City Improvements Fund	0.505	0.380	(0.125)
Lord Byron Fund	0.005	0.005	0
Capital Fund	8.716	5.026	(3.690)
Insurance Fund	1.345	1.819	0.474
Other Funds and Reserves	10.571	7.230	(3.341)
Total Reserves and Balances	35.005	39.281	4.276

3.7 Reserves and Balances (cont'd)

3.7.2 As reported earlier, the General Fund balance has increased by £7.617 million in 2008/09 as a result of:

- ❑ an operational deficit of £9.553 million;
- ❑ contribution from the Capital Fund of £10.645 million; and
- ❑ consent to borrow funds of £6.525 million.

3.7.3 The most significant other movement is within the Capital Fund which has decreased by £3.690 million during the year. This movement can be analysed as follows:

Table 5 – Capital Fund

Capital Fund		£m	£m
Balance brought forward from 2007/08			8.716
Additions:			
Receipts from Property Disposals		7.397	
Revenue Interest		0.747	8.144
Deductions:			
Principal Debt Repayment		(10.645)	
Capital Expenditure		(1.189)	(11.834)
Balance at 31 March 2009			5.026

3.7.4 Commitments at the year-end against the General Fund balance of £25.560 million total £16.776 million, and commitments against the Housing Revenue Account balance of £6.491 million total £1.356 million, resulting in uncommitted balances at 31 March 2009 of £8.784 million and £5.135 million respectively.

3.7.5 While the closing uncommitted balance on the General Fund at 31 March 2009 is better than projected, it still remains below the Council's minimum target balance of £10.968 million. The use of "one-off" resources, such as contributions from the Capital Fund and receiving consent to borrow for revenue expenditure is not sustainable as a means to support the General Fund.

Medium Term Financial Plan

3.7.6 In May 2009, the Council agreed a Medium Term Financial Plan for the period 2009/10 to 2012/13. The plan identified broad strategies for addressing the projected funding gap over the next four years and does not at this stage identify relative spending priorities. It does, however, recognise that the Council needs to develop strategies for reducing budgeted expenditure through reductions in staffing costs, establishing efficiency targets across all services and identifying opportunities for shared services.

3.7 Reserves and Balances (cont'd)

- 3.7.7 Close budget monitoring is clearly a key requirement to ensure that current savings are achieved and to ensure the medium to long term sustainability of the Council's financial position. The City Chamberlain in her report "*General Fund Revenue Budget 2009/10 Monitoring*" to the Budget Monitoring Board on 31 July 2009 recommended a revised methodology and process of reporting on financial performance to Service Committee and Resources Committee. It noted that, through the use of the Collaborative Planning tool which is being developed, managers can increase their involvement in the financial management reporting and with the assistance of the accounting staff, improve the accuracy of projections, identifying areas of risk, pressure and demand.
- 3.7.8 Work is currently being carried out to prepare for the 2010/11 budget. Services have been asked to draw up proposals to make a 5% budget reduction in order to balance the budget, which equates to £16.9 million. This figure is currently provisional as the Council has yet to receive the figure for the financial settlement from the Scottish Government. The Council is proposing to offer voluntary severance and early retirement packages to employees along with reduced hours and redeployment in order to achieve the required savings. It is currently working closely with staff and trade unions to minimise the impact of job reductions.

3.8 Pensions

- 3.8.1 Accounting for the costs of pensions presents a difficult challenge for local authorities. The amounts involved are large, the timescales long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 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.
- 3.8.2 The Council administers two pension funds on behalf of a number of local authorities, public sector bodies and other admitted bodies. Within the Local Government Pension Scheme (LGPS), the Council's estimated share of the pension liabilities at 31 March 2009 exceeded its share of the scheme assets. In addition, the Council make contributions into the Teachers Pension Scheme for teaching staff employed by the Council, which is administered by the Scottish Government. Both schemes provide members with defined benefits relating to pay and services.
- 3.8.3 The Council's net pension liabilities at 31 March are as follow:

Table 3 – Pension liabilities

Estimated pension liabilities	2007/08	2008/09	Movement
Pension Scheme	£m	£m	£m
Local Government	171.062	197.096	26.034
Teachers	19.306	18.791	(0.515)
Pension liabilities at 31 March	190.368	215.887	25.519

3.8 Pensions (cont'd)

- 3.8.4 As a result of changes to the requirements of FRS17 there is now a requirement for most assets to be valued at bid value as opposed to mid-market values, which has resulted in changes to the actuarial valuation as at 1 April 2007. The change to the net pension liability for 2007/08 amounted to £1.689 million and has been treated as an actuarial loss through the current year transactions.
- 3.8.5 Changes in actuarial assumptions have led to an increase in the estimated liability at 31 March 2009. In particular, a higher real discount rate has been used, the assumed life expectancy is higher and the financial assumptions used are less conservative than those used as at 31 March 2008, driven by the yields on corporate bonds rising and inflation expectations falling during the year.
- 3.8.6 The full actuarial valuation of the Aberdeen City Council Superannuation Scheme was carried out as at 31 March 2008. This highlighted a funding level of 83% and a future employer contribution rate of 19.3% of pensionable payroll, requiring an increased employer contribution rate, compared to the previous definition that was 300% of employee contributions, and was the equivalent of between 15% and 18% of pensionable payroll. The report recommended the following stepped increase over a three year period: 2009/10 – 19.1%, 2010/11 – 19.2% and 2011/12 – 19.3%.

3.9 Financial Instruments

- 3.9.1 In accordance with the requirements introduced in the 2007 SORP relating to financial instruments, the Council made the appropriate accounting entries and disclosure requirements in the accounts.
- 3.9.2 Guidance was issued by the Scottish Ministers under section 12(2)(b) of the Local Government Scotland Act 2003 to ensure that the adjustments required to the opening balances had no impact on the General Fund balance. The main impact of these new requirements on the Council's accounts are as follows:
- Deferred Premiums on Early Repayment of Debt***
- 3.9.3 The Balance of £17.583 million held on the Balance Sheet at 1 April 2007 was charged to the General Fund balance in 2007/08, and reversed out to the Financial Instruments Adjustment Account (FIAA), in accordance with the statutory guidance. In line with the existing write off schedules, an annual premium of £0.397 million has been written off to the General Fund.
- 3.9.4 All premiums (£0.160 million) and discounts (£0.119 million) arising on debt repayments during the year have been charged/ credited to the Income and Expenditure Account (net charge of £41,000).
- Soft Loans***
- 3.9.5 Two loans to the Aberdeen Exhibition and Conference Centre Ltd (AECC), totalling £26.2 million, approved in 2005, have been disclosed as soft loans as they were given at preferential rates. In accordance with the SORP, the fair value of these loans were calculated at 31 March 2007 using market interest rates and an adjustment of £11.955 million was made to the carrying value of the loans on the Balance Sheet in 2007/08. This reflects the effective loss incurred by the Council when making the loans as they are deemed to contain an element of financial assistance. As these loans were to a subsidiary of the Council, the adjustment has been charged to the Long Term Investment to reflect the additional investment provided.

3.9 Financial Instruments (cont'd)

3.9.6 An annual credit of £0.944 million, based on the difference between the actual interest received and that due using the market interest rate during 2008/09 has been written back to the carrying value of the loan.

Stepped Loans

3.9.7 The Council's long term borrowing portfolio includes loans with variable rate terms which are lender option borrower option arrangements (LOBOs) and in accordance with the SORP their effective interest rate must be calculated to meet the new requirements.

3.9.8 The carrying value of £63.893 million for these loans at 31 March 2007 was adjusted by £2.046 million against the opening General Fund Balance in 2007/08 and reversed out to the FIAA in accordance with the statutory guidance.

3.9.9 An annual credit of £13,000, based on the difference between the actual interest paid and that due using the effective interest rate during 2008/09 has been made to the Income and Expenditure Account and reversed through to the movement on the General Fund in 2008/09 in accordance with the statutory guidance.

3.9.10 Further details of all the required disclosures for the Council's financial instruments are included on pages 94 to 99 of the accounts. As required, the fair values for all financial instruments have been disclosed in these notes, based on the information provided by the Council's professional advisors, Sector.

3.9.11 In calculating the fair value of the Public Works Loan Board (PWLB) loans, Sector have used the rate for new borrowing as per the interest

rate notice (number 072/09) for Fixed Rates for transactions agreed on 31 March 2009. The PWLB has also provided figures based on the prevailing interest rate of the loans, which is significantly different from the Sector figures, as follows:

Sector (as disclosed in the accounts)	£398.557 million
PWLB	£423.188 million
<i>Difference</i>	<i>£24.631 million</i>

The carrying value of these loans is £335.127 million.

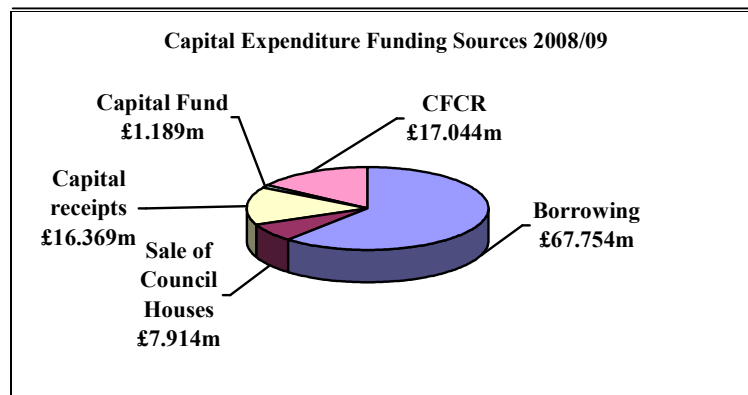
The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is deemed to be acceptable.

3.10 Capital Expenditure

3.10.1 Gross capital expenditure amounted to £110.270 million of which £47.669 million was on the Housing Programme and £7.282 million was additional investment in Aberdeen Sports Village. Funding for the capital expenditure was made up as follows:



3.10 Capital Expenditure (cont'd)



3.10.2 Performance against the financial budgets set by the Council in February 2008 (and subsequent approved amendments) for 2008/09 shows an underspend against non-housing capital expenditure of £9.311 million and an underspend against housing capital expenditure of £3.319 million. Significant underspends were experienced on several large construction projects due to delays in contractors being able to commence work.

3.10.3 The Service areas where the most significant capital expenditure was incurred within the General Fund were Contracting Services, Education, Office Accommodation Roads and Transportation and Social Work. The main projects were:

- ❑ Hill of Tramaud Landfill Site - £2.190 million
- ❑ Purchase of Vehicles - £4.343 million

- ❑ Hanover Street School Refurbishment - £5.201 million
- ❑ Wellington Road Dual Carriageway - £1.999 million
- ❑ Rosewell House - £6.481 million
- ❑ Marischal College Refurbishment - £4.316 million

3.10.4 The main item of capital expenditure within the Housing Programme was the Modernisation Programme (£23.422 million), Heating System Replacement (£3.278 million) and Sheltered Housing at Culter (£2.745 million).

3.11 Capital Accounting

3.11.1 The main movements on Fixed Assets during 2008/09 were:

- ❑ additions of £101.925 million, including £46.607 million on Council Dwellings, £10.599 million on Operational Land & Buildings, £13.687 million on Infrastructure Assets and £18.614 million on Assets under Construction.
- ❑ Revaluation gains of £31.078 million, including £27.582 million on Operational Land & Buildings and £2.847 million on Investment Properties.
- ❑ Revaluation losses of £26.031 million, including £11.975 million on Operational Land and Buildings, £9.049 million on Investment Properties and £5.007 million on Surplus Assets.
- ❑ disposals of £15.252 million, including £4.265 million of Council Houses and £9.058 million of Surplus Assets.

Details of all movements on Fixed Assets and Capital Accounting entries are disclosed in the accounts.

Finance

3.12 Investments

3.12.1 The Council has the following investments as at 31 March 2009:

Table 6 – Investments

	2007/08 £'000	2008/09 £'000
Long Term Investments:		
AECC	11,081	10,394
Aberdeen Sports Village	2,470	9,752
Short Term Investments	53,266	5,000

3.12.2 As detailed at paragraphs 3.9.5 and 3.9.6, the long term investment in AECC represents the additional investment made due to loans being provided to the subsidiary at preferential interest rates.

3.12.3 The short term investments have fallen significantly during 2008/09 due to funds being released to finance capital expenditure during the year.

3.12.4 Due to the downturn in the global economy, the Council has reviewed and updated its counterpart list of approved banks and building societies that it may lend to either directly or through the Money Markets, on a temporary basis. The amendments were required to further tighten the Council's lending criteria and further protect the Council's investments in the current financial climate. As well as removing certain institutions from the list, lending periods were also reduced from 'up to 12 months' to 'up to 3 months'.

3.13 Group Accounts

3.13.1 The SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and the following table details their interest in other entities and the basis of consolidating the results within the Council's group accounts.

Table 7 – Group entities

	ACC Control	
	2007/08	2008/09
Subsidiaries		
Aberdeen Exhibition and Conference Centre (AECC)	100%	100%
Mountwest 343 Ltd	100%	100%
Common Good	100%	100%
Trust Funds	100%	100%
Associates		
Grampian Joint Fire and Rescue Board	49%	49%
Grampian Joint Police Board	48%	48%
Grampian Valuation Joint Board	39%	39%
Aberdeen Sports Village	50%	50%

3.13.2 The Group's net expenditure of £517.534 million exceeded the income from government grants and local taxation, resulting in a deficit for the year of £72.240 million. (2007/08 – deficit of £130.729 million).



3.13 Group Accounts (cont'd)

3.13.3 The Group Balance Sheet shows the Total Assets less Liabilities to be £788.708 million, compared with the Council's single entity Balance Sheet total of £993.550 million. This 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 of £248.486 million. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.

3.13.4 All of the subsidiaries' and associates' accounts have been prepared on a going concern basis. These accounts have been audited and the audit opinion of both Grampian Joint Fire and Rescue Board (GJFRB) and Grampian Joint Police Board (GJPB) has been qualified due to an issue relating to FRS17 Retirement Benefits. The issue arose due to an omission in legislation and regulations to allow FRS17 based costs for new pension schemes beginning in April 2006 to be removed from a charge to the General Fund and be replaced by the actual costs.

3.13.5 Notwithstanding the omission in legislation to allow this adjustment, the Police and Fire accounts have been adjusted to only include actual costs in line with the treatment of other pension schemes. The Council understands the Scottish Government intend to correct the omission in legislation to allow the new schemes to be included in the adjustment in future. The group share of the amounts removed from the Police and Fire accounts are £1.932 million and £0.599 million respectively.

3.13.6 The Council has consolidated the Police and Fire accounts figures and has not included its share of the potential correcting adjustments to these accounts to comply with statute. On the grounds of materiality, this has not given rise to a qualification of the audit opinion in the Council's accounts.

3.14 Common Good

3.14.1 The Council's Common Good Income and Expenditure Account reported a surplus of £135,000 for the year and the Balance Sheet's net worth at 31 March 2009 amounts to £58.905 million.

3.14.2 In December 2007, Local Authority Scotland Accounts Advisory Committee (LASAAC) issued "*Accounting for the Common Good Fund: A Guidance Note for Practitioners*". The paper, which recognises the legislative distinction of the Common Good as a managed fund, requires disclosure of these funds within the local authority financial statements and that Common Good asset registers be put in place by March 2009.

3.14.3 Accounting guidance states that local authorities should take reasonable steps to ensure that Common Good fixed asset registers support the assets shown in the Common Good Balance Sheet. The Council has taken reasonable steps to maintain its asset register and we are not aware of any assets that need to transfer from the Council to the Common Good.



3.15 International Financial Reporting Standards

- 3.15.1 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 PFI/PPP schemes from 2009/10.
- 3.15.2 An IFRS-based Code of Practice on Local Authority Accounting is currently being prepared which will replace the SORP from 2010/11, when local authorities are required to fully adopt IFRS.
- 3.15.3 Authorities will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based balance sheet. Once this work has been completed, we will review the restatement work and report our findings. We encourage early completion of the restatement.

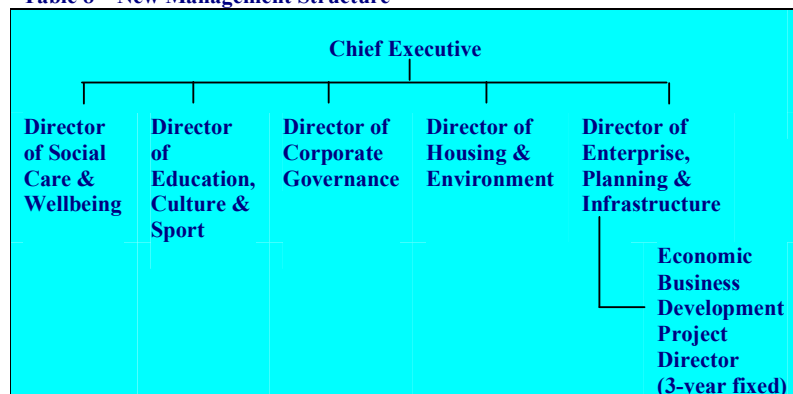


Governance

4.1 General Governance/ Audit Committee Arrangements

- 4.1.1 The Best Value progress report noted that *“the Council has taken prompt action in implementing plans to address the issues highlighted in the Best Value audit report and the Accounts Commission findings”*
- 4.1.2 Following the publication of the Best Value report in May 2008, and the appointment of the Interim Chief Executive in August 2008, a range of interim management arrangements were put in place. This included the appointment of an interim programme director for Social Care and the three neighbourhood services directors took a city-wide lead for Environment and Infrastructure, Learning and Housing.
- 4.1.3 A new Chief Executive was appointed in December 2008, and following a wide-ranging review and consultation a revised management structure was agreed by the Council in March 2009 (Refer to Table 8). At 30 September 2009 all new Directors were in post.

Table 8 – New Management Structure



- 4.1.4 In June 2009 the Council agreed to implement a new political decision making structure which came into effect in August 2009. The new structures reflect the new management structure and are based around key service areas rather than the area-based model which had been in place before.
- 4.1.5 As part of this new decision making structure, the audit committee role was transferred from the Scrutiny Panel to the Audit and Risk Committee. The Audit and Risk Committee remit includes:
- receiving an annual review of the risk management process, approving the risk management strategy and implementation plan and monitoring risk management and internal control arrangements;
 - ensuring that there is an effective Internal Audit function, including the approval of the Internal Audit Annual Plan and consideration of all reports;
 - receiving all reports prepared by the Council’s External Auditor;
 - consider the Council’s Annual Report, Annual Accounts and Trading Services Annual Report and Accounts and refer these to Council for approval;
 - Ensuring the Council meets its legal obligation through:
 - o Reviewing the reliability and robustness of financial information;
 - o Ensuring compliance with audit legislation; and
 - o The preparation of reports on avoidable losses.



Governance

4.1 General Governance/ Audit Committee Arrangements (Cont'd)

4.1.5 The Chief Executive is in the progress of reviewing and refreshing the Council's governance arrangements. Following the agreement of the revised management structures and the decision making structures, amendments to the Standing Orders were approved by the Council on 30 September 2009. Further work is also being carried out on the Council's Scheme of Delegation, Financial Regulations and Codes of Conduct for Officers and Members, which will be reported to Members in due course.

4.2 Members

4.2.1 The Best Value progress report noted that *"the Council has agreed role profiles for Members, which highlight a range of competencies including leadership elements. The role profiles are currently being used as the basis for a Training Needs Analysis (TNA) exercise which will result in each Member having a Personal Development Plan(PDP)"*

4.2.2 An update report to the Finance and Resources Committee on 17 September 2009 reported that, of the 43 Members:

- 35 role profiles have been returned;
- 25 PDP's are in place, with a further one in progress; and
- an additional reminder was issued to Members to complete by the end of August.

4.2.3 The Members' development programme for 2009/10 is currently being agreed, with the first aspect being a series of sessions around the planning process, including development and decision making and design principles. This will be followed by Board of Directors' responsibilities in November.

4.2.4 The Improvement Service are currently piloting a Continuous Professional Development programme with five Councils which incorporates a 360 degree element, whereby Members would have the option to receive feedback from self-selected colleagues. The pilot is being reviewed and is planned to be made available to all Councils from January 2010. The Council intends to make further recommendations to Committee on the potential use of this tool following the outcome of this pilot.

4.3 Annual Governance Statement

4.3.1 The Council has a Local Code of Corporate Governance adopted in May 2002 (the Local Code), which was revised and updated in 2006. The Council reviews the effectiveness of its governance framework is informed by the work of officers responsible for the development and maintenance of the governance environment, the Internal Audit Manager's annual report and comments from our reports and other agencies and inspectorates.



4.3 Annual Governance Statement (Cont'd)

- 4.3.2 Following the Accounts Commission Hearing in 2008, which recommended that the Council should ensure that robust and effective governance arrangements are in place, the Council is in the process of reviewing its governance arrangements, as noted in 4.1.5 above. As part of this review, the Council intends to fully adopt the CIPFA/ SOLACE Framework and related Scottish guidance on “*Delivering Good Governance in Local Government*” and follow the recommended route of self-assessment. While work has not yet concluded in relation to a fully revised governance framework, the Council has made significant decisions to improve the governance arrangements, as noted in Section 4.1 above.
- 4.3.3 In Scotland there is no statutory requirement for local authority bodies to conduct an annual review of the effectiveness of their system of internal control and prepare a Statement on the System of Internal Control (SIC), as there is for bodies in England and Wales. However, authorities in Scotland are encouraged to produce a SIC on a voluntary basis. The CIPFA/ SOLACE revised framework, “*Delivering Good Governance in Local Government*”, which is reflected in the 2008 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.
- 4.3.4 In 2008/09, the Council has continued to publish two statements with its financial statements: a Statement on the Systems of Internal Financial Control (SSIFC) and a Governance Statement. The Council is working towards producing a single statement in the future as part of its ongoing review.

Recommendation 1: A single Annual Governance Statement should be produced for inclusion within the 2009/10 Financial Statements.

- 4.3.5 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.
- 4.3.6 In the SSIFC, included in the Council’s financial statements, the City Chamberlain reported that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control. However, she also reported a number of areas of weakness were identified which were of particular significance during 2008/09 for which action has already been taken or is underway.
- 4.3.7 In our report 2009/03: *Financial Statements Audit Plan*, issued on 28 May 2009, we also concluded that for the main financial systems reviewed, with the exception of cash and bank, fixed assets and capital accounting, the majority of expected key controls appeared to be in place and no material weaknesses were identified that would impact significantly on our year-end testing. The key controls for fixed assets and capital accounting are mainly covered by year-end processes and our detailed testing of these areas during our audit of the accounts did not reveal any material errors or control weaknesses. The issue regarding the bank reconciliations was addressed during 2008/09, therefore while the key controls were not operating fully throughout the year, the bank account was fully reconciled at 31 March 2009.

4.4 Reliance on Internal Audit

2008/09 audit

4.4.1 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 2008/09 we agreed to place reliance on work covering a number of areas. 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.

4.4.2 In our *Financial Statements Audit Plan* (Report no 2009/03 issued on 29 May 2009), we noted that “In 2007/08 due to the limited resources available within the Council’s Internal Audit function we undertook additional external audit work to obtain audit assurance on areas which Internal Audit were unable to address. For 2008/09, Ernst and Young have been appointed to carry out specific parts of the internal audit programme. We have updated our assessment and established that we can still place reliance on the work”.

2009/10 audit

4.4.3 Ernst and Young were commissioned to develop a risk-based internal audit plan for 2009/10, and their report “*Introduction and Background to Proposed Annual Audit Plan 2009/2010*” was presented to the Scrutiny Panel on 8 June 2009. This was developed following discussion with stakeholders, and identified that they were seeking a more balanced approach to the delivery of internal audit within the Council, with a focus on both a compliance role and supporting and improving the business of the Council going forward.

4.4.4 The Plan highlights that this shift towards a more balanced approach will impact on the Council’s in-house internal audit function in terms of resources, skills and experience and methodology.

4.4.5 A further report was submitted to the Audit and Risk Committee on 8 September 2009 “*Internal Audit Staffing*” by the Director of Resources Management. This report recommended that officers progress an option appraisal with the involvement of staff and Trade Unions on the Best Value means of delivering the Internal Audit function.

4.5 Risk Management

4.5.1 The Council has made good progress with its Risk Management arrangements during 2008/09. A revised Risk Management Strategy was developed along with a Risk Management Manual which is intended to ensure that the strategy is embedded consistently across the Council. The Strategy and Manual were both approved by the Continuous Improvement Committee on 2 June 2009.

4.5.2 A Corporate Risk Register has also been developed and was approved on 2 June 2009 along with the Strategy and Manual. The register will be formally reported and reviewed by the Corporate Management Team (CMT) on a quarterly basis, with an annual sign off by the Chief Executive prior to the annual planning process.

4.5 Risk Management (Cont'd)

4.5.3 The Service Risk Registers are currently being developed at different stages in line with the interim managerial arrangements. The timing of the completion of Education, Culture and Sport and Social Care and Wellbeing has been delayed due to resource issues. Plans are in place to manage these operational risks in the same way as the corporate risks, through ongoing monitoring by 'Lead Officers' and quarterly reviews by the Senior Management Team (SMT). An annual report will then be presented to the Scrutiny Panel.

4.6 Partnership Working/ Shared Services

4.6.1 As reported in our previous Report to Members, the Council has set up a Central Procurement Unit (CPU) in partnership with Aberdeenshire Council. The CPU initially identified a programme of 20 commodities with business cases for each, which anticipated joint savings of £25 million over a five year period.

4.6.2 The CPU holds a contract register which is used to plan future tenders and initiatives and any potential collaborative opportunities with partners. It previously published details of current tenders on its Procurement Partnership website, however, in September 2009 has migrated with the national portal so that all tenders are now registered with the National Public Contracts Scotland Portal.

4.6.3 The CPU works closely with Scotland Excel and is recognised as one of the four Regional Hubs of Expertise.

4.6.4 Current developments within the CPU unit include:

- consultation is currently being carried out to deliver a Responsible Procurement Policy;
- in-house training programmes; and
- a Regional Procurement Strategy has been developed with all local public partners and has been endorsed by Committees, Joint Boards or equivalent.

4.6.5 The Council is also a member of the North East Scotland Chief Executives Forum (previously known as North East Scotland Joint Public Sector Group (NESJPSG)). In view of recent changes towards outcome focused delivery and changes of membership within the NESJPSG, the Group initiated a review of its vision, purpose and business model in February 2009.

4.6.6 In carrying out this review, the Group recognised the significant work currently being undertaken by all partners. Regional collaboration exists in bodies such as the North East Scotland Child Protection Committee (NESCPC) and the Northern Criminal Justice Authority (NCJA). At local authority level, operational work is focused through Community Planning Partnerships (CPPs), Community Safety Partnerships (CSPs) and Community Health Partnerships (CHPs).

4.6.7 A "NESJPSG Priorities – Initial Review" was developed and a strategic assessment is currently being carried out during 2009 in order to identify actions which add value to the North East of Scotland and its residents, within the national objectives and priorities. These will then be incorporated into a disciplined and open programme of work.

Governance

4.7 Asset Management

- 4.7.1 In June 2009 the Council agreed a Corporate Property Asset Management Plan which identified investment planning as a priority area and the need to formally adopt a capital project prioritisation process.
- 4.7.2 A Corporate Asset Group has been established to oversee the delivery of the plan and provide updates to the Finance and Resources Committee.
- 4.7.3 The plan recommended a number of key actions which were required to be undertaken during the 2009/10 financial year, however, due to the management restructuring to five Directorates, and the associated re-alignment of existing services into this new structure, progress with moving these forward has been delayed. In particular, the Corporate Asset Group was set up with representatives from each of the Services under the old structure and therefore will need to be re-configured to the new structure. Also, Service Asset Management Plans, identifying property issues that affect the delivery of each Service were seen as an essential element of the process, however, have been effectively put on hold until the new Service Plans are prepared and agreed by the new Directors.

4.8 Property Transactions

- 4.8.1 The Best Value progress report noted that “*The Council has introduced more rigorous arrangements to deal with property transactions*”. This followed action taken by the Council to address the findings of the Controller of Audit’s report in April 2008 which had highlighted serious and wide ranging deficiencies in the Council’s approach to property disposals over the period 2001 to 2006 and serious weaknesses in governance and accountability.
- 4.8.2 We have issued a separate report ***Property Sales Investigation – Follow-up Report*** (Report No: 2009/06 issued on 27 August 2009), which gave a more detailed update on the progress made by the Council in addressing the concerns raised. In summary, our report noted that:
- ❑ from the work carried out, in respect of controls, procedures and reporting on property disposals, good progress has been made in addressing the issues;
 - ❑ in respect of the separate investigation into the disposal of certain tied houses to the tenants, this work identified deficiencies in the documentation supporting the tenancies such that the Council was unable to dispute the Right to Buy application under the terms of the Housing (Scotland) Act 2001. As a result of the arrangements which were in place over a number of years the Council has suffered financial loss either through giving discounted rents when they were not appropriate, or through being obliged to sell properties at discounted prices when, if the Council had the appropriate documentation, the applications to buy could have been turned down. Recommendations were therefore made to address these findings.



4.9 National Fraud Initiative

- 4.9.1 During 2008/09 the latest National Fraud Initiative (NFI) in Scotland began and we monitored the Council's participation in it. 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. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£13.8 million from the 2006/07 exercise and £41 million including previous exercises as at 30 June 2009). Where fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 4.9.2 Arrangements for the exercise began in good time. New procedures were put in place for giving data subjects notice of the possibility of their data being matched. This is a 'layered' approach, whereby documents such as benefit application forms have a brief note, but refer to more detailed information on the Council's website, which refers on to further detail provided by Audit Scotland. Data was uploaded to the Audit Commission's secure web application according to the deadlines given.
- 4.9.3 The Council has made good progress in reviewing matches, and expects to complete the work by the end of the year. So far overpayments of more than £155,000 have been found, ten of which relate to fraud rather than error. The Council has not reviewed the trade creditors matches (looking at areas such as duplicate payments) because outside consultants carried out a full review of creditors data which resulted in repayments being made to the Council. The number of duplicate

payments was quite low, and this exercise also led to improvements in standing data which will decrease the likelihood of duplicate payments in future.

- 4.9.4 The Council did not take part in the council tax match to the electoral register in 2007/08 because of concerns around the legality of supplying the electoral roll. Discussions are continuing around its submission for the current exercise. However councils are now required to supply council tax data for matching discounts other than the single person discount.
- 4.9.5 Overall the Council continues to demonstrate good commitment to the National Fraud Initiative.

4.10 Finance Section Resources

- 4.10.1 In our 2007/08 Report to Members and Management Letter 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. While we have seen improvement in some areas of the accounts production process such as bank reconciliations, there remain a number of areas where the adequacy of resources might usefully be considered.

Recommendation 2: 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 Councils needs.

Performance

5.1 Performance Management

- 5.1.1 The Best Value progress report noted 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”*.
- 5.1.2 In 2008, the Council introduced *“Covalent”*, an electronic performance management information system. The system currently includes details of the Corporate Improvement Plan, budget savings and the Service Scorecards which are currently reported to Committee. The CMT has agreed a strategic approach for implementing the system at all levels within the Council.
- 5.1.3 The 2008/09 Annual Public Performance Report is currently being prepared by Council Officers and is scheduled to be presented to the Corporate Policy and Performance Committee on 5 November 2009 for approval. Following approval, this report will be published on the Council’s website.

5.2 Single Outcome Agreement

- 5.2.1 In 2007 national and local government leaders signed a concordat which requires each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return the Scottish Government pledged to allow councils greater freedom, for example, by removing ring-fencing of funds.
- 5.2.2 The Aberdeen City Alliance (TACA) and the Scottish Government signed the first SOA for Aberdeen City on 17 November 2008. This set a number of performance measures and targets for the year 2008/09 onwards.
- 5.2.3 A report was presented to the Corporate Policy and Performance Committee in September 2009 reporting the outturn performance and analysis for the measures included within the 2008/09 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.
- 5.2.4 This report also noted that, as part of the Council’s performance management system, each Service will be reporting to the relevant Committees of the Council showing performance against the measures included in the SOA. This will include recommendations for action for further improvement.
- 5.2.5 The SOA for 2009 to 2012 was submitted to the Council in May 2009, and signed by TACA and the Scottish Government on 30 July 2009.



Performance

5.3 Efficient Government

Background

5.3.1 The Scottish Government issued a paper on Efficient Government Reporting “*Framework For Local Authorities in Scotland*” in 2007, which introduced arrangements for reporting on efficiency savings.

Efficiency Statement

5.3.2 The Council produced its Efficiency Statement and lodged it with the Scottish Government by the deadline of 31 August 2009. This reported the following efficiency gains for 2008/09, and prior years:

Table 8 – Efficiency Gains

Efficiency Gains	2006/07	2007/08	2008/09	Movement
	£m	£m	£m	£m
Cash Releasing Savings	6.387	3.251	16.206	12.955
Time Releasing Savings	0.108	0.249	0.065	(0.184)
Recurring Savings	4.337	3.273	16.177	12.904

5.3.3 These efficiencies have been identified by Council officers from their work. Each efficiency arising from a formal change in how the Council works is supported by a detailed calculation and has been checked by Council officers to ensure that it represents a true efficiency.

5.3.4 The recurring savings achieved in 2006/07 and 2007/08 continue to generate savings in 2008/09. The figures reported above for 2008/09 are new efficiency savings made in addition to the £7.610 million recurring savings identified in 2006/07 and 2007/08.

5.3.5 Significant reductions were made to the Council’s expenditure in 2008/09 to achieve a balanced budget. Where the budget reduction resulted in a reduction in the quality or quantity of service delivered, these are not recorded as efficiency improvements. Where the reductions to expenditure involved delivery of the same quality of service or outcome, these are recorded as efficiency improvements.

5.3.6 The savings for 2008/09 can be further analysed under the individual efficiency streams in Table 9 below:

Table 9 – Efficiency Streams

Theme	Cash Releasing	Time Releasing	Recurring
	£m	£m	£m
Procurement	2.265	-	2.265
Workforce Planning	0.867	0.025	0.832
Asset Management	3.884	-	3.884
Shared Services	0.224	-	0.224
Streamlining Bureaucracy	0.077	0.032	0.110
Other	8.889	0.007	8.862
Total	16.206	0.065	16.177



Performance

5.3 Efficient Government (cont'd)

5.3.7 Key areas which have contributed to the efficiency gains in 2008/09 are:

- the Council shares a procurement service with Aberdeenshire Council, as part of a national model of electronic purchasing, which strives to obtain the best value in all purchases. Supply contracts are re-tendered as they fall due, with efficiency gains arising from a lower unit cost of purchase or from obtaining better quality at the same cost;
- the productivity of the Council's building repair service was significantly improved during the year with the introduction of a new craft worker pay agreement which increased the time available for repair work. Together with the changes to appointment scheduling and the introduction of mobile working this has enabled the Council to carry out repairs at a time more suitable to customers;
- efficiency gains in 2006/07 and 2007/08 have included the reduction in lost rental income from houses which were unavailable for rent. This improvement has continued, with the rent loss for these void properties reduced to £0.657 million in 2008/09, an efficiency of £0.203 million compared to 2007/08; and
- the Council has adopted new technology to achieve efficiency gains both through improved customer service and reduced cost of service delivery. Examples include a new jetpatcher machine to fix potholes on the road and the introduction of the on-line planning application process.

5.3.8 The Council has a detailed plan to achieve efficiencies for 2009/10 and beyond. At least two new secondary and two primary schools are due to open during 2009/10 under the Council's 3Rs programme. All of these schools will have improved insulation, under floor heating, ambient lighting and some on-site energy generation capacity. These features will reduce the consumption of utilities compared to the existing school buildings.

5.3.9 Within each Service across the Council, there is significant activity ongoing to deliver improvements and efficiencies from cross Service projects. The projects currently active include:

- Costing and Repairs Management System
- InfoSmart (electronic document and workflow management)
- WorkSmart (use of mobile/ non office based approaches to delivering services)
- Electronic Service Delivery (using the website, interfacing with back office systems to deliver services)
- Corporate Asset Management System
- Diagnostic Pathway
- I D Management (easing updating of personal information used by several council systems to one input requirement)
- Rationalisation of Receptions in St Nicholas House

5.3.10 All of these projects are complex and difficult to deliver, therefore present a high demand on resources. It is therefore essential to have coordination and agreement between Services in the implementation of each project. An Efficiencies Programme Steering Group has been set up and meets quarterly to fulfil the remit of the Project Boards for all the projects, and coordinates the governance around these projects.



Performance

5.4 Statutory Performance Indicators (SPIs)

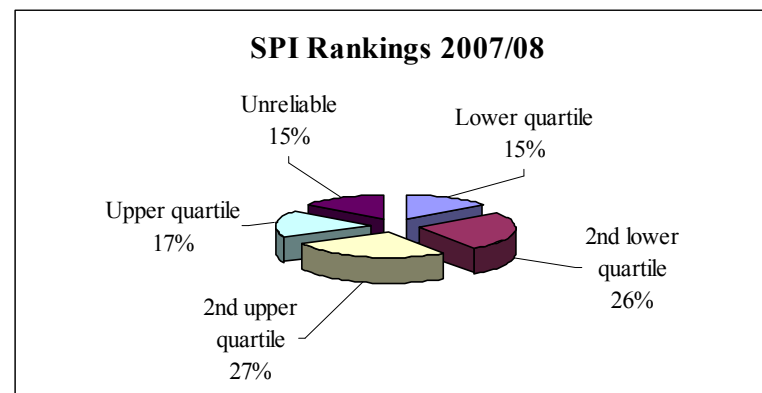
SPI Information

- 5.4.1 Aberdeen City Council has been assessed as having unreliable indicators over several years; six in 2006/07, three in 2007/08, and now two in 2008/09. Last year we produced a separate report on SPIs to highlight concerns around the production process in individual services. This has not been necessary this year. Two of the three indicators that were unreliable last year were assessed as reliable this year, following new arrangements and extensive testing by the Council. However, an indicator which changed in 2008/09 was newly assessed as unreliable. The circumstances around this assessment highlight the need for services to test the data, since again one of the issues was the accuracy of input data.
- 5.4.2 Two of the indicators which were unreliable in 2007/08 share a common system, namely Adult and Children's Respite. As the data set for Children is smaller, the Council decided to focus training and other effort on this area first, resulting in the data being assessed as reliable in 2008/09. The previously unreliable Homecare indicator was found to be reliable in 2007/08 following a similar exercise to improve the standard of data recording.
- 5.4.3 Our 2007/08 report highlighted the poor comparative performance of Adult Social Work as measured by the SPIs. We are pleased to report that performance relative to other councils in 2007/08 improved for five measures and declined for only one. Four indicators were now within the upper two quartiles, one being 7th out of 32, compared to none in the upper quartiles previously. Although this appears encouraging, five

indicators were now in the bottom quartile. Comparing 2008/09 social work indicators with 2007/08, while four declined in absolute terms, seven improved, and two stayed more or less the same. Again this is an encouraging overall movement, particularly when the budget cuts are factored in.

Council Performance

- 5.4.4 The SPIs cover a wide variety of Council functions and it can be difficult to make comparisons between Councils and between the same council's performance across years. Nevertheless, there are some comments which can be made based on the Council's results for 2008/09 and the latest available published cross-council figures for 2007/08. In paragraphs 5.4.6 to 5.4.9 we have concentrated on the areas of relative strengths and weaknesses in performance, but to set these in context, overall 2007/08 performance in relation to other councils was as follows:



Performance

5.4 Statutory Performance Indicators (SPIs) (cont'd)

5.4.5 There are 32 councils, so if a ranking is within the range 1 to 8, the council is in the upper quartile, and so on. Rankings are available for 82 measures, and the chart shows that Aberdeen City Council was in the two upper quartiles for 37 of these, with 12 measures not being reported due to unreliability, leaving 33 within the lower two quartiles. This shows that the Council's position with regard to other councils is slightly better than the previous year where 31 were in the upper quartiles, and 32 in the lower, and 19 measures unreported.

5.4.6 Looking at the same set of indicators for 2008/09, 18 are unreliable, not to be reported, or are not comparable this year, leaving 64 in total. Comparing these with the Council's performance in 2007/08, 7 show no or a very small change, while 36 have improved and 21 have worsened.

Cultural and Community Services

5.4.7 Of the ten indicators in this section, the Council was in the upper quartile for five during 2007/08. In 2008/09, however, performance declined for all but two of them, most of which had been improving up to that point. Although probably not the only factor, the budget cuts do appear to have had a major impact in this area.

Corporate Management 4: Public access to council buildings

5.4.8 This indicator measures the percentage of buildings used by the public which provide access to disabled people. Performance has consistently improved since the indicator first began, from 43% of buildings being judged accessible in 2005/06 to 81% in 2008/09. At the same time, the relative position of the Council moved up from 21st in 2004/05 to 7th in 2007/08. The improved performance arises from the funded programme of work, with a strategy in place to prioritise 'quick wins' which will allow full access to disable people.

Waste Management 4: Recycling and Composting

5.4.9 The Council has been a consistently poor performer in terms of the percentage of all waste recycled and composted, being in the lower quartile since 2005/06, and ranking 29th in 2007/08. Total tonnes of waste produced in the city declined by 6% between 2006/07 and 2008/09, while the amount recycled and composted grew by 3% in the same time, so that the percentage of the total recycled has increased slightly every year, to 23.4% in 2008/09. This is low compared to national targets of 40% to be recycled by 2011. The Council's Waste Strategy is currently under review and further collections, for example of food waste, are being introduced.



Performance

5.4 Statutory Performance Indicators (SPIs) (cont'd)

2009/10 Arrangements

- 5.4.10 The Accounts Commission's 2008 Direction (dealing with 2009/10) sets out a very different approach to statutory performance information. It specifies firstly a range of broad headings, such as sustainable development or the education of children, against which councils must demonstrate that they are achieving Best Value. Secondly, it retains a small number of specified indicators. This represents a move towards allowing councils to determine what performance information they publish, whilst recognising that public performance reporting is not yet fully developed within councils.
- 5.4.11 It is expected that in 2009/10 local authorities will view the Statutory Performance Indicators as an integral part of the requirement to achieve Best Value. The SPIs should also be more closely integrated with councils' Public Performance Reporting.

5.5 National Studies

- 5.5.1 A summary of National Studies issued by Audit Scotland is included at Appendix II.



Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the City Chamberlain's responsibilities for the Financial Statements are set out on page 13 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Financial Control reflects the Board's compliance with the SORP, and we report if, in our opinion, it does not. We are 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 procedures or its risk and control procedures.



Appendix II – Definition of Material, Significant and Trivial in Relation to the Audit Adjustments

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Council. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Council has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Council agrees to adjust the errors.



Appendix III – Action Plan

Observation and Risk	Recommendation	Management Response	
<p>1.1 In 2008/09, the Council has continued to publish two statements with its financial statements: a Statement on the Systems of Internal Financial Control (SSIFC) and a Governance Statement.</p>	<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>	
		Grade	B
<p>1.2 While we have seen improvement in some areas of the accounts production process such as bank reconciliations, there remain a number of areas where the adequacy of resources might usefully be considered.</p>	<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 Councils 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>	
		Grade	B



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
<p>Impact of the Race Equality Duty on Council Services</p>	<p>November 2008</p>	<p>All councils have now developed policies on race equality but many Councils are unable to show how race equality is systematically and routinely built into the design and delivery of services. The report highlights the need to ensure that race equality is incorporated into existing improvement programmes and the need for improved identification and sharing of good practice.</p>	<p>The Council Race Equality Scheme and Education Race Equality Scheme action plans set out our corporate actions to counter race inequalities and discrimination. In addition, the Policy and Strategy Committee on 4th March 2008 instructed the Heads of Service to work with the relevant Equalities Action Network members and others to ensure equalities actions were integrated within service and specific neighbourhood community action plans.</p> <p>Aberdeen City Council has a strong record of consultation and engagement with minority ethnic communities. Last year, together with the Ethnic Minority Forum, Aberdeenshire Council and partners we participated in a consultation with minority ethnic communities on the content of our race equality scheme, which was commended by Ros Miklem, National Director Scotland of the Equalities and Human Rights Commission. In addition, we work closely with the Grampian Racial Equality Council (GREC), Multi-ethnic Aberdeen Ltd, the Aberdeen International Centre and various national and minority ethnic associations and communities to discharge our public duty on race equality. We work closely with our partners and Aberdeenshire Council in many areas of equalities. We participate in the Aberdeen Racist Incident Partnership, which includes, among others, NHS Grampian, Grampian Police, Grampian Fire and Rescue, Aberdeen University and voluntary sector organisations such as GREC. Our Equality Action Network, a Community Planning Challenge Forum, includes partners and representation from the Civic Forum.</p>



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
<p>Improving Energy Efficiency</p>	<p>December 2008</p>	<p>The report highlights a need for stronger leadership on energy efficiency, from both the Scottish Government and within public bodies themselves, to ensure that they develop and implement good quality energy strategies and make the necessary changes to culture and behaviour.</p>	<ul style="list-style-type: none"> • The Council undertook a service review of energy management services in 2008. The outcome is a new and stronger team - with 8 officers - split between working on energy, water, and home energy efficiency. In addition a sustainable development officer is providing half time support on climate change and carbon management. • The Council is working with the Carbon Trust to revise its Carbon Management Plan and have set a high target of 23% reduction by 2015 and 42% by 2020 against our baseline year of 2008/09. There is a clear programme to work towards the Carbon Reduction Commitment by gaining the Carbon Standard. • Energy audits are being carried out at the same time as Energy Performance Certificates are being assessed. The Council has committed addition £30,000 funds for water saving measures in 2009/10 • Works to improve energy and water efficiency are underway in Council operated buildings including replacement of oil fired boilers, insulation, installation of renewables, use of combined heat and power and smart metering. • The Council is a partner on a number of European Union (EU) transnational projects working on climate change, energy efficiency and low carbon designs. • In March 2009, Aberdeen’s Lord Provost signed up to the Covenant of Mayors, a European network exchanging good practice on energy efficiency. Signatories are obliged to curb CO₂ emissions beyond EU targets.



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
			<ul style="list-style-type: none"> Development of the World Energy Cities Partnership (WECP) Calgary Climate Change Accord in partnership with energy cities Calgary, Stavanger and Houston. The Lord Provost is to sign the accord in Calgary, October 2009.
Drug and Alcohol Services in Scotland	March 2009	The findings highlight the need for a coordinated effort to ensure that services meet local needs and are delivered to consistent standards across Scotland. The report contains a self-assessment checklist, aimed at helping local partners improve the delivery and impact of drug and alcohol services through a joined-up, consistent approach.	The Council in partnership- with NHS Grampian and the former JADAT completed a self assessment prior to the multi agency inspection of substance misuse services in Grampian in 2006 and the follow up inspection in 2009. The subsequent action plans have addressed several of the issues in the Audit Scotland 2009 report. On the basis of the recommendations in the SWIA report Aberdeen City The Council has developed a recovery strategy and has match funded NHS Grampian in investing in Drugs services which have helped to reduce the waiting list for treatment and will assist in providing services which promote recovery. This money will also assist in identifying children at an earlier stage and who are at risk because of parental substance misuse. Aberdeen City Council is in the process of completing the self evaluation in the ‘Drugs and Alcohol Services in Scotland’ report. Individual agencies will then submit their evaluations to the ADP which will prioritise actions which need to be taken locally in line with national and local strategies. The Council is in the process of agreeing a commissioning strategy for social care and wellbeing services and also writing an overall service plan for the Social Care and Wellbeing service. Our joint drugs and alcohol strategies are about to be updated and our commissioning priorities will be extracted from our strategic objectives which for drug services



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
			continue to be reducing the waiting list for treatment, stabilising the individual, assessing and care planning and moving on through the rehabilitation process and out of service towards long term recovery and abstinence and meeting the HEAT Targets from referral to assessment and assessment to treatment.
Overview of Mental Health Services	May 2009	This report provides an overview of mental health services across Scotland. It highlights significant changes in mental health care in the past decade, with more people receiving treatment in the community and a greater focus on helping people to recover from mental health problems.	<p>The self evaluation has been completed and areas for improvement were highlighted in the recent SWIA performance inspection of social work services in Aberdeen City.</p> <p>In Aberdeen City we have long standing joint working arrangements in place within mental health services and long established community mental health teams which are providing joined up appropriate services. The joint commissioning process is well established and this covers all funding available to the service whether this is NHS or LA funding. The bed base at Royal Cornhill Hospital in Aberdeen is the lowest in Scotland and therefore there has been an ongoing requirement to develop community services which meet the needs of those being discharged. Un met need in residential services is collected and provides information about the requirement for future services.</p> <p>Services are to provide regular information about service activity and outcomes measures and are presently participating in the national benchmarking exercise. There is also a requirement that services use a recovery model of service provision, encouraging individuals to use mainstream services where appropriate. We monitor vacancies in residential and supported accommodation projects and ensure these are kept at a minimum. Services are</p>



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
			<p>reviewed and if not meeting need are decommissioned and re specified and tendered.</p> <p>Local partners working together is well established and the main forums for this are the Mental Health Collaborative which is delivering on the commitments and HEAT targets in Delivering for Mental Health and the local Mental Health Partnership Group and Joint Future Old Age Psychiatry Group.</p> <p>There is participation by all partners in the development of CAMHS services through the Leadership programme and a review of Psychological therapies is taking place.</p> <p>Aberdeen City Council Social Care and Wellbeing service is currently establishing its service plan and commissioning strategy which is based on national and local policy requirements and meets the targets in the SOA.</p>
Asset Management in Local Government	May 2009	The study evaluated the extent to which councils manage their assets to ensure effective service provision and achieve value for money, It found that many council buildings are in poor condition and others are unsuitable for the services being delivered from them. In order to address these issues Councils need better strategies and systems for managing their assets.	<p>See comments on Asset Management in section 4.7 of this report.</p> <p>This represents the position generally although not all the actions in the delivery of the plan have been delayed to the same extent.</p>
Improving Public Sector Purchasing	July 2009	The report provides a position statement on the progress made in taking forward the Public Procurement Reform Programme, designed to reform public procurement and deliver savings of about three per cent a year. The study	<p>See comments on Procurement in section 4.6 of this report.</p> <p>We have concluded a National Procurement Capability Assessment, independently facilitated, which maps our performance progress against the main 82 recommendations of the McClelland Report of</p>



Appendix IV – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Aberdeen City Council Action
		found that although progress has been made this varies across Scotland and has been slower than planned.	Public Sector Purchasing in Scotland. The results of this, and our position in relation to all the other Scottish local authorities, will be available early 2010.
Improving Civil Contingencies Planning	August 2009	The study looked at the progress made since the Civil Contingencies Act 2004 was passed, assessing the pace of change and identifying ways in which improvements can be made. The report made 16 detailed recommendations where further improvements can be made.	As an active and committed member of the Grampian Strategic Coordinating Group, Aberdeen City Council is participating in all joint agency initiatives and action plans designed to ensure that the audit recommendations are either reflected in current working practices or are implemented where necessary. Where any recommendation has a specific implication for Aberdeen City Council these will be reflected in the current review of our Emergency Planning Policy and Procedures document.



Appendix V – Abbreviations used in the Report

APPENDIX V

A Table of abbreviations used in the Report

ADP	Alcohol and Drugs Partnership
AECC	Aberdeen Exhibition and Conference Centre
APSE	Association of Public Sector Excellence
CAMHS	Child and Adolescent Mental Health Services
CCT	Compulsory Competitive Tendering
CHP	Community Health Partnership
CMT	Corporate Management Team
CPP	Community Planning Partnership
CPU	Central Procurement Unit
CSP	Community Safety Partnership
FIAA	Financial Instrument Adjustment Account
FRS	Financial Reporting Standard
GJFRB	Grampian Joint Fire and Rescue Board
GJPB	Grampian Joint Police Board
GREC	Grampian Racial Equality Council
HEAT	Health Improvement : Efficiency : Access to Services : Treatment
HMIE	Her Majesty's Inspectorate for Education
HMRC	Her Majesty's Revenue and Customs
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standards
ISA	International Standard on Auditing
JADAT	Joint Alcohol and Drug Action Team

LASAAC	Local Authority Scotland Accounts Advisory Committee
LGPS	Local Government Pension Scheme
LOBO	Lender Option Borrower Option
NCJA	Northern Criminal Justice Authority
NESCPC	North East Scotland Child Protection Committee
NESJPSG	North East Scotland Joint Public Sector Group
NFI	National Fraud Initiative
NI	National Insurance
PDP	Personal Development Plan
PWLB	Public Works Loan Board
SIC	Statement on the System of Internal Control
SMT	Senior Management Team
SOA	Single Outcome Agreement
SORP	Statement of Recommended Practice
SPI	Statutory Performance Indicator
SSIFC	Statement on the System of Internal Financial Control
STO	Significant Trading Operations
SWIA	Social Work Inspection Agency
TACA	The Aberdeen City Alliance
TNA	Training Needs Analysis
WECP	World Energy Cities Partnership

